REPORT OF THE ADVISORY COMMITTEE
TO THE
MINISTER OF MUNICIPAL AFFAIRS
ON THE
PROVINCIAL-MUNICIPAL
FINANCIAL RELATIONSHIP

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TO: The Honourable Dave Cooke
Minister of Municipal Affairs
Government of Ontario

January 3, 1991

In April 1989, the Minister of Municipal Affairs established an advisory committee to examine provincial-municipal financing matters and to provide recommendations to guide this relationship in the 1990s and beyond.

We, the members of the Advisory Committee to the Minister on the Provincial-Municipal Financial Relationship, are pleased to submit herewith our report and recommendations. We should note that the report has not been submitted to, or endorsed by, our respective organizations.

Grant Hopcroft, Chairman
Association of Municipalities of Ontario
City of London

Doris Brick
County of Peterborough

Michael Boggs
Region of Niagara

Gary Herrema
Region of Durham

David Hipgrave
Metropolitan Toronto

Don Huggins
Township of Delhi

Harry Kitchen
Trent University

Tom McKay
City of Kitchener

Bill Ride
City of Sudbury

Marcia Sypnowich
Ministry of Municipal Affairs

Dear Mr. Cooke:

We are pleased to submit the final report of your Advisory Committee on the Provincial-Municipal Financial Relationship.

The Committee was appointed in April 1989 to examine the conditional and unconditional transfer systems and to give advice on the provincial-municipal financial relationship for the 1990s and beyond.

Our mandate has been a challenging one as our review has covered all municipal services and a wide range of financing techniques.

Since the early stages of our deliberations, the membership of the Committee changed substantially. Past members include former M.P.P.'s Claudio Polsinelli, Christine Hart, Charles Tatham, William Ballinger, and Douglas Reycraft; former CAO of Renfrew Trip Kennedy and committee advisor John Gerretsen. All these individuals made valuable contributions to the Committee. However, responsibility for the Committee's final report and its recommendations lies solely with the Committee's current membership.

The Committee also wishes to acknowledge the individuals, organizations and municipalities that submitted ideas for consideration. Their suggestions were an important addition to the Committee's own ideas.

Finally, the Committee wishes to recognize the research and administrative support provided by Municipal Finance Branch of the Ministry of Municipal Affairs.

Yours sincerely,

Grant Hopcroft
Chairman

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EXECUTIVE SUMMARY

In April of 1989, the Minister of Municipal Affairs established an Advisory Committee comprised of municipal and provincial representatives and committee advisors. This Committee's mandate was to explore options for the provincial-municipal financial relationship for the 1990s and beyond. This report is the fruit of the Committee's research and deliberations.

The Committee identified a number of future challenges. These include: a rapidly growing population in some areas and a static population in others; increasing urbanization; an aging population; the need to devote more resources to the protection of the environment and the need to make substantially greater investments in infrastructure. In order to successfully meet these challenges, the Committee concluded that there is a need to develop a new provincial-municipal relationship.

This report reflects concerns about the increasingly expanded roles that municipalities are required to play due to shifts in the level of responsibility for a number of services, such as court security. These responsibilities have developed without a concomitant increase in municipal fiscal capacity.

The Committee's vision for the future of provincial-municipal finance is one in which the division of roles and responsibilities between the Province and municipal levels

of government are more clearly delineated and are based upon objective criteria that have been mutually agreed upon. Any subsequent transfers of responsibility would also be based on these criteria. The Committee's proposed principles are:

1) To the extent that income redistribution is a program or service objective, policy/service management and program financing should be a provincial responsibility.

2) The degree of involvement in policy/service management for each level of government should be determined by the type and level of spillovers.

3) Services should be produced at the level of government that can do so most economically.

4) Services should be delivered by the level of government that can do so most effectively.

5) The degree of involvement in policy/service management for each level of government should be dictated by the level of interest or the need for standards.

6) The allocation of policy/service management, delivery and financing responsibility should be designed to promote accountability.

If these principles were acted upon, the municipal sector would have increased policy/service management and financing responsibility for those services which are local in nature, such as fire and local roads. The Province would increase its responsibility both in policy/service management and financing for those services which have large spillovers or are income redistributive, such as health and social services. In situations where municipalities simply deliver these services, they would do so on a fee for service basis. Financing responsibilities would be closely linked to policy/service management responsibility. This clearer delineation of roles would foster accountability at both the provincial and municipal levels.

Equally important is the notion that both levels of government should have fields of taxation which are free from intrusion by the other level of government. This clearer delineation of revenue sources would foster accountability in much the same way that a clearer delineation of roles would.

To maintain a clear delineation of roles, conditional transfers would be used only for those services that are a shared responsibility and would reflect the extent to which provincial responsibility exists for the service. Resource equalization would no longer occur through conditional transfers.

As well, to bring greater certainty to the unconditional transfer system, its overall allocation would be based on a revenue-sharing agreement. Each municipality would then receive a simple uniform unconditional transfer. In recognition of the needs of very poor municipalities, the unconditional transfer system would also contain a transfer of last resort for those without the revenue generating capacity to provide basic municipal services.

The property tax system would be reformed and become understandable to the average ratepayer by using full market value reassessment in combination with variable mill rates. This would increase councils' accountability to their ratepayers and give councils explicit tax policy over their most important own source of revenue. The business tax would be discontinued. The removal of the income redistribution function from the scope of municipal responsibilities would largely eliminate the need for generalized resource equalization. However, lower-income households within all municipalities would be assisted

through an enhanced property tax credit and a new tax deferral scheme for the elderly.

The nature of the realigned roles makes it appropriate for municipalities to follow much more closely a user pay philosophy. The Committee believes that the scope for implementing user fees at the municipal level would increase significantly. It recommends that there be greater municipal autonomy in the choice and level of these user fees.

Greater municipal autonomy and accountability would also be evident in the area of financing infrastructure. Municipalities would have greater flexibility, not only in managing their assets, but also in the type of financing arrangements they could use to finance their infrastructure requirements.

LIST OF RECOMMENDATIONS

1. The Committee has adopted and applied the following principles and recommends that they be used to guide the allocation of roles and responsibilities for the policy/service management, delivery and funding of services:

    a. To the extent that income redistribution is a program or service objective, policy/service management and program financing should be a provincial responsibility.

    b. The degree of involvement in policy/service management for each level of government should be determined by the type and level of spillovers.

    c. Services should be produced at the level of government that can do so most economically.

    d. Services should be delivered by the level of government that can do so most effectively.

    e. The degree of involvement in policy/service management for each level of government should be dictated by the level of interest or the need for standards.

    f. The allocation of policy/service management, financing and delivery responsibilities should be based on promoting accountability.

2. The Committee's proposed framework should be adopted by the Province as a guide for realigning provincial-municipal responsibilities.

3. Each level of government should have representation on special purpose bodies commensurate with their responsibility and accountability for that service.

4. The share of the property tax base used to support provincially mandated education programs should be decreased by increasing provincial funding, thereby lifting some of the load off property taxes.

5. The Committee endorses a number of recommendations made by the Select Committee on Education:

   - The Ministry of Education should consult with the key partners in education as soon as possible in order to:

     - determine a clear and understandable mode of calculating the cost of providing the education services mandated in the Education Act and identifying the basic components of recognized expenditure; and

     - develop a rational means of updating these cost calculations and ceiling determinations within a realistic expenditure framework.

   - In reviewing the overall calculation and adequacy of provincial operating and capital transfers, the Minister of Education and key partners in education should examine how to improve equitable access to education resources throughout the province.

   - The Minister of Education should establish a task force to examine options to make the tax base for education funding more progressive.

   - The Ministry of Education should conduct all policy reviews with the goal of simplifying the structure of education finance.

6. All conditional transfer programs should be reconsidered in light of the realignment of responsibilities recommended in this report and the resulting transfer programs should be based on the following objectives and principles:

   a. Conditional transfer programs should be based upon clear jurisdictional responsibilities and interests.

   b. The conditional transfer system should promote accountability.

c. Resource equalization should not take place through the conditional transfer system.

d. In areas of shared responsibility, a uniform transfer rate should be applied to the actual costs incurred by municipalities in providing services to mutually agreed upon standards.

7. The concept of resource equalization should be carried out through unconditional transfers, an enhanced property tax credit and tax deferrals.

8. The unconditional transfer system should consist of:

a. a general transfer to municipalities provided uniformly on a relatively simple basis (i.e. tax levies); and

b. a transfer of last resort to assist poor municipalities. This transfer would be received on a formula-driven basis rather than as a continuing entitlement (this is expected to account for roughly 20 per cent of the total unconditional transfer). Its distribution mechanism is to be determined by the Province in consultation with municipalities.

9. The Ministry of Municipal Affairs should expand its municipal data base to include general economic indicators, particularly employment and income-related data, by municipality.

10. The transfer payment system within the new provincial-municipal financial relationship should promote stability and predictability. Changes in the transfer system should be made only after discussions between the Province and its municipalities.

11. The details of all transfer payments should be announced by the 15th of November of the year prior to the transfer payment year.

12. To address the shortfall between aggregate municipal expenditures and municipal fiscal capacity, the Province should develop a revenue-sharing formula to determine the allocation to unconditional transfers.

13. The revenue-sharing formula should assign to the unconditional transfer allocation the necessary percentage points of a representative bundle of provincial tax revenues on the basis of a three-year rolling average.

14. Full market value assessment across the Province should be implemented through the use of upper-tier-wide reassessments. These reassessments should be updated every four years. It will also be necessary to develop a mechanism to put all municipalities on the same base for transfer purposes.

15. Variable mill rates should be introduced on a permanent basis as a tax policy measure available to councils.

16. The present business assessment and business tax structure should be eliminated. The existing statutory 15 per cent differential between the residential and commercial mill rates should be widened so that the total commercial and industrial tax burden remains the same in aggregate in the province.

17. Low-income individuals should be assisted through an enriched and more sensitive tax credit system that is based solely on need.

18. The Province should develop and implement a province-wide property tax deferral scheme for the elderly.

19. Each level of government should have clear fields of taxation in keeping with its roles and responsibilities.

20. The Committee does not endorse the use of a municipal income tax.

21. The Committee does not endorse the use of a municipal payroll tax.

22. The Committee does not endorse the use of a municipal sales tax.

23. The Committee does not endorse the use of a municipal poll tax.

24. The Commercial Concentration Tax should be turned over to municipalities.

25. The Committee recognizes that taxation may be useful in reducing environmental degradation. Where an appropriate local objective can be achieved, municipalities should be given the authority to impose appropriate environmental taxes.

26. Municipalities should be given the authority to impose a hotel tax at the discretion of council.

27. Upper-tier municipalities should be given the authority to impose special rates.

28. Increased flexibility in the services for which special rates may be charged and the basis on which they may be collected should be given to municipalities.

29. A new telecommunications tax including the taxation of cable TV companies should be devised to solve the growing problems with the existing tax system and broaden the revenue base.

30. The idea of using the gross receipts concept for other public utilities such as natural gas companies should be examined.

31. Payments in lieu of taxes under the authority of section 160 of the Municipal Act on properties owned by the Province should be replaced by payments made on an assessment/mill rate basis.

32. Municipalities should be given the authority for more flexible use of user fees to mitigate costs imposed on municipalities.

33. When municipalities establish user fees, the following conditions should be borne in mind: the benefits are quantifiable and have little spillovers; charges should consider the consumer's ability to do without the service or good; and charges should be designed to maximize accountability.

34. Municipalities should be given the flexibility to fully recover the costs of administration, issuance and enforcement through licence fees.

35. The Province should consider providing municipalities with more flexibility for innovative asset management arrangements and public/private sector co-ventures.

36. Section 36 of the Planning Act should be revised to ensure that it is used purely as a planning tool and an equivalent

financing tool should be made available to municipalities at both the upper and lower tier levels.

37. The Province should proceed with the recommendations of the working committee on debt issuance and investment policy.

38. Given a realignment of roles and responsibilities, Ontario Municipal Board debt guidelines should be revised and based on municipal own-source revenue.

39. The Province should adopt the direction for realigning roles and responsibilities in this report and should establish a fiscal framework for implementation, in consultation with the municipal sector.

INTRODUCTION

During its March 1988 presentation to the provincial cabinet, the Association of Municipalities of Ontario (AMO) requested that the government establish a provincial-municipal committee to examine the existing provincial-municipal transfer system with a view toward making it more responsive to municipal needs. The most recent joint committee examining the financial relationship between the Province and municipalities was the Provincial-Municipal Long-Term Financial Arrangement Committee which presented its report in 1979. It was agreed that the AMO request was warranted in order to ensure a financially strong municipal sector for the 1990s and beyond.

As a result, in April 1989, the Honourable John Eakins, Minister of Municipal Affairs, established the Advisory Committee on Provincial-Municipal Financing Matters. The Committee included both municipal and provincial representatives, as well as committee advisors, and its responsibilities went beyond an examination of the transfer system. Its mandate was not only to provide advice on conditional and unconditional transfer reviews but also to explore possible options for the provincial-municipal financing relationship in the future.

The financial relationship between the Province and municipalities is complex as the two levels of government are intertwined in many ways. The following points outline some important facets of this relationship:

- few areas of municipal activity do not have some provincial dimension (e.g. provincial funding for a particular service, a provincial supervisory role, province-wide standards, or provincially mandated provision of a service);

- municipalities depend to a large extent on the Province for funding, both in the form of conditional (capital and operating) and unconditional transfers;

- the Province relies on municipalities to deliver many services;

- conditional funding, which accounts for 20 per cent of municipal operating revenues, has been criticized by the Conditional Grant Review Committee.[1] These criticisms include:

    the fact that there are in excess of one hundred grant programs, many of these programs are not easily understood, administrative requirements are often excessive, and there are inconsistencies in the approaches to equalization from program to program;

- conditional transfers tend to entrench priorities both at the provincial and municipal levels as people become committed to existing programs;

- the system of unconditional transfers, which accounts for about 9 per cent of municipal operating revenues, has been criticized for its complexity. Recently, the Provincial Auditor questioned whether the various formulas used to calculate transfers were appropriate in addressing unconditional transfer program objectives;

- significant local functions are sometimes performed by autonomous special purpose bodies, such as Police Commissions. Some of these are regulated by provincial statute and are funded by municipalities but they are not answerable to or controlled by municipal councils;

- the involvement of several levels of government introduces complications into attempts to alter arrangements for service delivery, planning and funding and also results in accountability problems; and

- municipalities often feel that they are not given an adequate voice in the planning and the policy-making for a variety of services, given that they are responsible for both delivering these services and for

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1 An interministerial committee that reviewed the rationale for all conditional grants and developed a set of principles regarding the allocation of conditional transfers.

raising revenues to cover a significant portion of their costs.

In approaching its task, the Committee was aware that the challenges facing all governments, including municipal governments, will be even greater in the 1990s than they are today. These challenges include:

- a growing population in the main urban areas, particularly in the Greater Toronto Area, but a static population in other areas, particularly the north;
- an increasingly urban population will increase demand for urban-type services even in areas that in the past have been considered rural;
- an aging population;
- demands for policies that provide greater protection of the environment; and
- the need for substantial investment in infrastructure, such as, transportation and water and sewage facilities.

In light of these challenges, the Committee has framed its recommendations based on the principle that the Province must recognize the legitimate role of municipal government as an elected body, with specific roles and responsibilities. From this it follows that municipalities must have the financial capacity to carry out these functions.

Therefore, the provincial-municipal relationship must include:

- a division of authority and responsibilities between the Province and municipalities with regard to the provision, delivery and funding of services;
- access to new sources of revenue for municipalities; and,
- a process mutually agreed upon by the Province and municipalities for addressing future changes in responsibilities and funding, as well as an avoidance of unilateral decision-making.

This report represents the Committee's research into, and deliberations on, the matters outlined above. Chapter One provides background information, including a demographic profile of Ontario, a description of provincial-municipal financial interdependence and a profile of the municipal sector and its finances. Chapter Two sets out the basic reasons why the municipal level of government is efficient and effective, and develops a set of principles to guide the division of responsibilities between provincial and municipal governments in terms of policy/service management, delivery and financing. Chapter Three presents an application of the Committee's principles toward a realignment of responsibilities and indicates that the Province should have a greater responsibility for income redistribution. Chapter Four examines the existing transfer system and proposes changes to complement the new division of responsibilities by simplifying and rationalizing transfers. Chapter Five discusses the property tax and explores possibilities for improvement in the areas of assessment, local tax policy and property tax relief mechanisms. Chapter Six looks at potential new revenue sources, including the scope to expand the use of existing taxes and user fees and discusses their appropriateness within the context of realigned responsibilities. Chapter Seven examines appropriate municipal means of capital formation including development charges, reserves and borrowing. Chapter Eight explores the process necessary to implement the Committee's recommendations.

CHAPTER ONE

THE PROVINCIAL-MUNICIPAL FINANCIAL RELATIONSHIP: AN OVERVIEW

1.1 Profile of Ontario

Population

Between 1978 and 1988, Ontario's population grew almost 10 per cent to 9,096,294. By 1996, it is expected to reach 10,493,700. Although on an overall basis municipalities had population growth from 1978 to 1988, the increase in the regions, at 22.6 per cent, is more than four times that of any other sector.[2] Total population actually decreased in Metropolitan Toronto, district cities and districts.

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[2] Sector definitions are:

Metro Toronto - the Municipality of Metro Toronto and its lower-tier municipalities;

Regions - regional governments, Muskoka and Oxford, and all the lower-tier municipalities in these areas;

County cities - cities located within the geographic boundaries of counties;

District cities - cities located in northern Ontario but outside the Region of Sudbury;

Counties - county governments, towns, separated towns, villages and townships in counties; and,

Districts - towns, villages, townships and improvement districts located in northern Ontario, including the Moosonee Development Area Board, but excluding the Region of Sudbury.

At the end of 1987, there were 839 municipalities in the Province. Of these, 800 were "lower tier" or "local" municipalities (cities, towns, villages, townships and improvement districts), and 39 were "upper tier" municipalities (counties and regional governments).

These definitions are described more fully in Municipal Financial Information (Toronto, Ontario: Ministry of Municipal Affairs, 1987).

Table 1-1
Population Growth[3], 1978-1988

	1978	1988	Change
			%
Metro	2,147,852	2,133,559	-0.7
Regions	3,075,288	3,771,457	22.6
Co. Cities	1,062,374	1,113,798	4.8
Dis. Cities	285,809	285,215	-0.2
Counties	1,424,265	1,515,601	6.4
Districts	279,884	276,664	-1.2
Total	8,275,472	9,096,294	9.9

Households[4]

Household formation between 1978-1988 far surpassed population growth, increasing at 18.7 per cent. Again, the regions were the fastest growing sector with a 28.5 per cent increase in households. Perhaps the most significant trend occurred in Metro Toronto, district cities and the districts, where the number of households increased substantially while their actual populations declined.

In other words, across the Province, there has been a significant decrease in the number of persons per household, from 2.7 in 1978, to 2.5 in 1988. In 1978 district cities had the most persons per household at 3.0 and counties had the fewest persons per household with 2.4. In 1988 regions had 2.7 persons per household and in districts there were only 2.1 persons per household.

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3 Population data are those collected by the Ministry of Revenue. The 1988 population figures exclude non-permanent residents such as university and college students which are included in the 1978 population figures which means there may actually be less negative population growth than is shown in the 1988 figures.

4 For the purpose of this discussion, household refers to a dwelling unit assessed in accordance with the Assessment Act.

Table 1-2
Growth in Households, 1978-1988

	1978	1988	Change
			%
Metro	779,452	861,220	10.5
Regions	1,088,517	1,399,051	28.5
Co. Cities	391,333	457,676	17.0
Dis. Cities	96,334	110,372	14.6
Counties	587,563	655,649	11.6
Districts	110,557	131,147	18.6
Total	3,053,756	3,625,115	18.7

Age Distribution

Ontario's aging population has contributed to the growing number of households. While between 1977 and 1987[5] Ontario's overall population grew, the population aged 0-19 declined in every municipal sector. The smallest decrease was 1.3 per cent in the regions and the largest, a 21.3 per cent decrease, in Metro Toronto. Regions also had the largest increases in the 20-65 and the 66+ age groups, with increases of 32.7 and 43.9 per cent, respectively. Ontario's largest overall shift was a 34.6 per cent increase in the 66+ group.

5 Note: At the time that this report was being written, these data for 1988 were not available.

Table 1-3
Changes in Age Distribution, 1977-1987

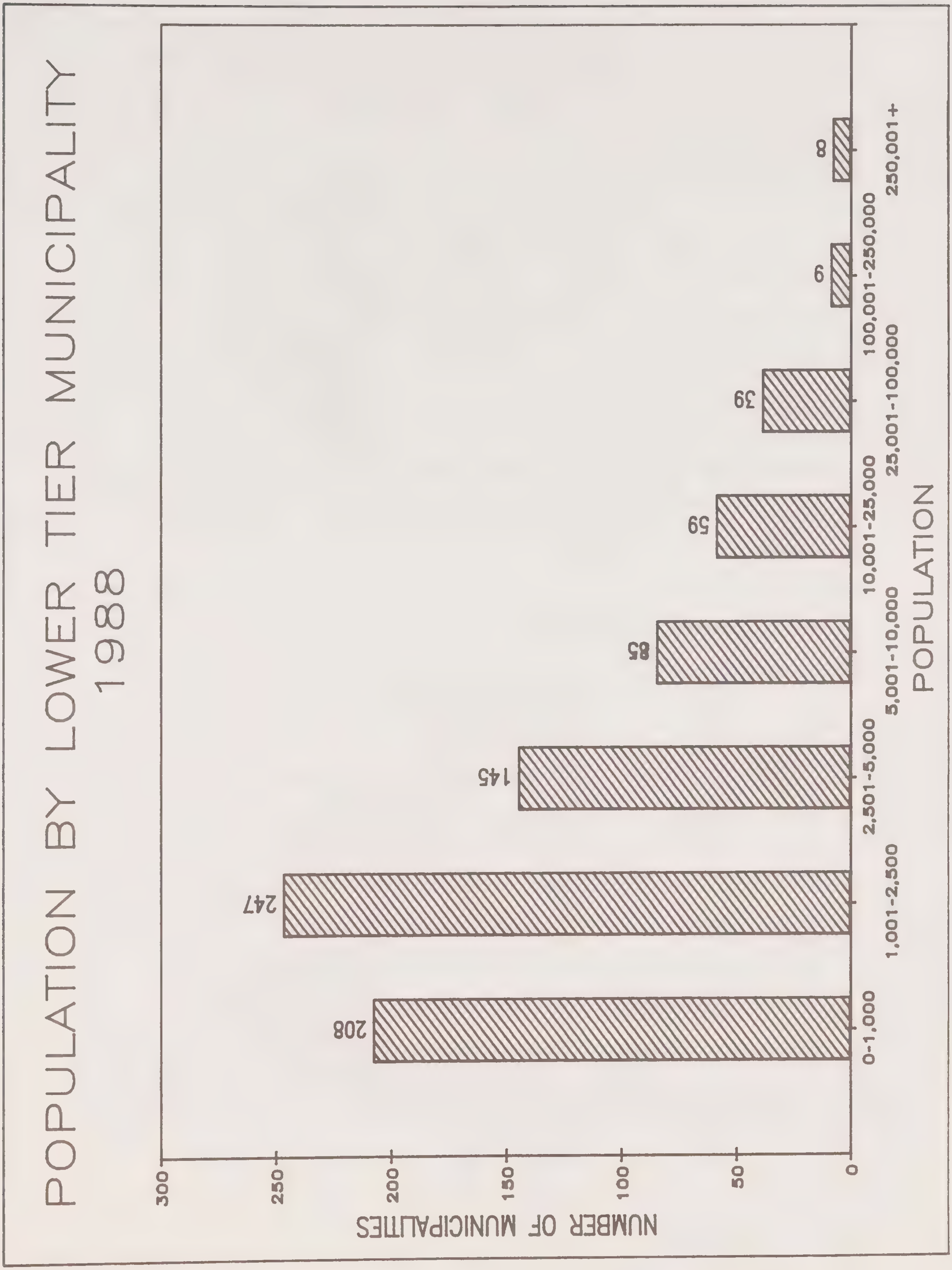
	Ages 0-19	Ages 20-65	Ages 66+
	%	%	%
Metro	-21.3	10.3	29.6
Regions	- 1.3	32.7	43.9
Co. Cities	-13.6	17.6	34.1
Dis. Cities	-17.7	15.3	35.2
Counties	-10.2	19.1	27.1
Districts	-11.1	24.3	32.2
Total	-10.2	21.3	34.6

1.2 Municipal Diversity

Ontario's 839 municipalities vary significantly in population, responsibilities, administrative resources and their ability to raise revenue locally. Much of the complexity in the present provincial-municipal relationship is due to this diversity.

As figure 1-1 indicates, Ontario's municipal sector is characterized by many very small, relatively sparsely populated municipalities and a few large municipalities, where the vast majority of the population lives. Almost 75 per cent of all lower-tier municipalities in Ontario have a population of less than 5,000 people, while only 2 per cent have populations of more than 100,000. Expressed differently, 15 per cent of all lower-tier municipalities contain 80 per cent of Ontario households. While this concentration of people facilitates the provision of services in the urban centres, it makes it much more difficult to ensure equal access to quality services in the small municipalities across the province.

Figure 1-1


POPULATION BY LOWER TIER MUNICIPALITY
1988
NUMBER OF MUNICIPALITIES
300
250
200
150
100
50
0
208
247
145
85
59
39
9
8
0-1,000
1,001-2,500
2,501-5,000
5,001-10,000
10,001-25,000
25,001-100,000
100,001-250,000
250,001+
POPULATION

The ability to raise revenues locally and the administrative resources that a municipality can draw on are related to population size and density. For instance, the administrative resources of a rural township may consist of one part-time clerk-treasurer. On the other hand, Metro Toronto has a large and highly specialized staff covering many different areas of activity such as housing, parks and recreation, and public works. In the field of social services, the Social Assistance Review Committee's report cited the lack of a full-time social service administration in many municipalities as a factor contributing to the unequal access to social services across the province.[6] The revenue-raising ability of municipalities also varies greatly across the province, depending on such economic factors as the incomes of residents, property assessment and the rate of employment.

1.3 Municipal Expenditures[7]

In 1988 Ontario's municipal operating expenditures totalled $10.8 billion. These expenditures had grown at an average annual rate of 10.0 per cent from 1978 to 1988. During this period, the municipal sector which increased its overall expenditures at the greatest annual rate was the regions (10.7 per cent). Figure 1-2 shows the amount of total municipal expenditures accounted for by each functional area (such as transportation, health and social services) in 1978 and 1988.

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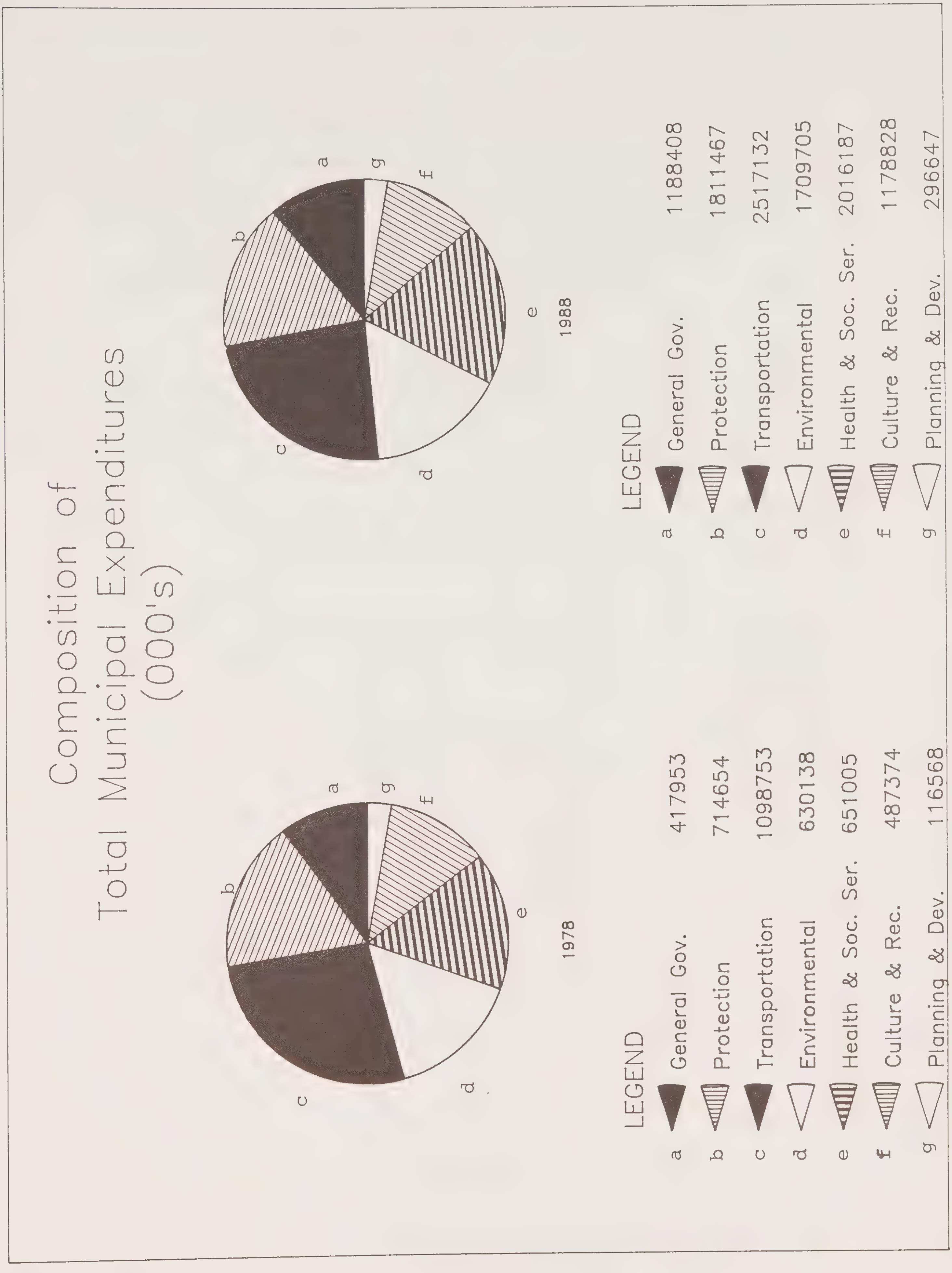
[6] Social Assistance Review Committee, Transitions (Toronto, 1988), p.393.

[7] This analysis is based on the expenditure categories as defined in the Financial Information Return, a standardized reporting document that is submitted annually to the Ministry of Municipal Affairs.

Figure 1-2


Composition of
Total Municipal Expenditures
(000's)
1978
LEGEND
a General Gov. 417953
b Protection 714654
c Transportation 1098753
d Environmental 630138
e Health & Soc. Ser. 651005
f Culture & Rec. 487374
g Planning & Dev. 116568
1988
LEGEND
a General Gov. 1188408
b Protection 1811467
c Transportation 2517132
d Environmental 1709705
e Health & Soc. Ser. 2016187
f Culture & Rec. 1178828
g Planning & Dev. 296647

Protection

Protection expenditures are those related to fire fighting, police forces, conservation authorities, building inspections and general by-law enforcement. In 1988 Ontario's municipalities spent $1.8 billion on protection, or 16.9 per cent of their total expenditures. These expenditures grew at a slightly lower annual average rate (9.7 per cent), than municipal expenditures as a whole. The sectors with the slowest annual growth were the county cities and district cities where expenditures were increased at rates of 9.0 per cent and 8.9 per cent, respectively. The fastest annual growth in expenditures occurred in the regions (10.5 per cent).

Table 1-4
Protection Expenditures, 1978-1988

	1978	1988	Average Annual Change
	$000	$000	%
Metro	275,040	667,271	9.3
Regions	258,763	702,365	10.5
Co. Cities	97,654	230,730	9.0
Dis. Cities	27,810	65,004	8.9
Counties	43,811	116,265	10.3
Districts	11,576	29,832	9.9
Total	714,654	1,811,467	9.7

Transportation

Transportation expenditures are those related mainly to roads, sidewalks, public transit, parking, street lighting, and air transportation. Even though they accounted for $2.5 billion, or 23.5 per cent of total municipal expenditures in 1988, transportation expenditures experienced the slowest annual growth from 1978 to 1988 (8.6 per cent) of all service areas.

Slow growth is particularly evident in total expenditures for roads, which increased at 7.3 per cent annually. Expenditure increases annually on roads were only 5.7 per cent in the district cities. By contrast, total transit expenditures grew more rapidly than overall municipal expenditures. Only in Metro Toronto and district cities did they grow more slowly, at 9.5 and 8.8 per cent, respectively. County and district expenditures grew at rates of 15.4 and 20.5 per cent annually, but this was due to the relatively low initial expenditures by these sectors.

Table 1-5
Transportation Expenditures, 1978-1988

	1978	1988	Average Annual Change
	$000	$000	%
Metro	392,621	911,869	8.8
Regions	365,441	897,947	9.4
Co. Cities	100,303	235,144	8.9
Dis. Cities	34,346	67,707	7.0
Counties	173,130	334,808	6.8
Districts	32,912	69,657	7.8
Total	1,098,753	2,517,132	8.6

Environment

Environmental expenditures are those related to water and sewers, garbage collection and garbage disposal. They represented $1.7 billion, or 16.0 per cent of total municipal expenditures in 1988. Over the period, these expenditures grew at 10.5 per cent, more quickly than overall municipal expenditures. Across Ontario, municipal solid waste expenditures grew at a significantly faster rate than water and sewer expenditures. The regions had the greatest overall growth rate, at 12.0 per cent annually. They also had the fastest annual growth in both sewer and water expenditures, at 10.6 and 11.6 per cent, respectively. Counties had the fastest annual growth in solid waste expenditures, at 16.1 per cent. The districts had the lowest overall increase with a growth rate of 7.9 per cent annually.

Table 1-6
Environmental Expenditures, 1978-1988

	1978	1988	Average Annual Change
	$000	$000	%
Metro	189,921	471,838	9.5
Regions	243,223	754,303	12.0
Co. Cities	92,617	213,814	8.7
Dis. Cities	21,244	49,370	8.8
Counties	63,986	179,317	10.9
Districts	19,147	41,063	7.9
Total	630,138	1,709,705	10.5

Health and Social Services

Health and social service expenditures are those related to public health, hospitals, ambulances, general welfare assistance, assistance to the aged, assistance to children and child care. These services accounted for $2.0 billion, or 18.8 per cent of total expenditures in 1988. This area experienced the greatest growth in expenditures, at 12.0 per cent per annum. In particular, total municipal expenditures on general welfare assistance grew at an average annual rate of 13.9 per cent. Public health increased at a slightly lower rate than overall municipal expenditures. The sector with the greatest growth in health and social services was Metro Toronto with 12.8 per cent average annual growth. However, the counties, the sector with the least growth, still had an average annual growth of 10.2 per cent.

Table 1-7
Health and Social Services Expenditures, 1978-1988

	1978	1988	Average Annual Change
	$000	$000	%
Metro	209,330	695,515	12.8
Regions	218,394	671,771	11.9
Co. Cities	65,340	207,745	12.3
Dis. Cities	32,291	94,929	11.4
Counties	103,115	273,116	10.2
Districts	22,535	73,111	12.5
Total	651,005	2,016,187	12.0

Culture and Recreation

Culture and recreation expenditures fund parks and recreation, libraries, and cultural activities such as zoos, theatres and art galleries. In 1988, the sum of $1.2 billion, or 11.0 per cent of total municipal expenditures, was spent in this area. This represents an average annual increase of 9.2 per cent between 1978 to 1988. The regions and Metro Toronto had the fastest growth rates, at 9.8 per cent and 9.4 per cent, respectively.

Table 1-8
Culture and Recreation Expenditures, 1978-1988

	1978	1988	Average Annual Change
	$000	$000	%
Metro	173,639	425,871	9.4
Regions	170,187	433,573	9.8
Co. Cities	57,212	131,108	8.6
Dis. Cities	21,075	38,988	6.3
Counties	48,710	111,038	8.6
Districts	16,551	38,250	8.7
Total	487,374	1,178,828	9.2

Planning and Development

Planning and development expenditures are those related to planning and zoning, economic development and assisted housing. They accounted for almost $300 million, or 2.8 per cent of municipal expenditures in 1988. This represents an average annual increase of 9.8 per cent from 1978 to 1988. The county cities and districts had the fastest growth rates, at 11.0 per cent and 13.3 per cent, respectively.

Table 1-9
Planning and Development Expenditures, 1978-1988

	1978	1988	Average Annual Change
	$000	$000	%
Metro	24,090	51,695	7.9
Regions	46,259	118,320	9.8
Co. Cities	11,943	33,953	11.0
Dis. Cities	5,266	8,427	4.8
Counties	24,520	68,636	10.8
Districts	4,490	15,616	13.3
Total	116,568	296,647	9.8

General Government

General government expenditures are those that relate to general administration and can not be allocated to more specific functions, such as expenses directly related to council. In 1988 Ontario's municipalities spent $1.2 billion on general government, or 11.7 per cent of total expenditures. Since 1978 this segment has grown more quickly than overall expenditures, at 11.0 per cent annually. The sectors with the greatest expenditure growth annually were Metro Toronto and the regions, at 11.4 and 11.7 per cent, respectively. By contrast, the sectors with the least growth were the district cities and districts which each grew at an annual rate of 8.9 per cent.

Table 1-10
General Government Expenditures, 1978-1988

	1978	1988	Average Annual Change
	$000	$000	%
Metro	134,483	397,219	11.4
Regions	154,075	464,523	11.7
Co. Cities	40,289	103,848	9.9
Dis. Cities	10,943	25,732	8.9
Counties	60,275	154,974	9.9
Districts	17,888	42,112	8.9
Total	417,953	1,188,408	11.0

1.4 Municipal Revenues

The municipal revenue base in Ontario can be conveniently described in terms of three main revenue sources: property taxes, provincial transfer payments, and user fees and other revenues. In this analysis, direct water billings and sewer surcharges on water billings are included in the category of user fees rather than in property taxes. As table 1-11 shows, although the overall provincial mix has not altered greatly from 1978 to 1988, there has been a discernable shift in the composition of revenue sources. Property taxes and provincial transfer payments are still the first and second largest sources of municipal revenue although they have decreased as a proportion of total revenues. However, user fees and other revenues such fines, licence fees and investment income have increased.

Table 1-11
Composition of Revenue Fund Revenues

		Property Taxes	Transfers	PILs*	User Fees	Other Revenues
		%	%	%	%	%
Metro	1978	43.2	22.3	4.5	24.1	5.9
	1988	38.9	23.1	3.0	26.9	8.1
Regions	1978	41.8	29.3	4.5	17.9	6.5
	1988	40.8	25.2	4.0	22.5	7.6
Co. Cities	1978	46.0	27.6	3.2	17.9	5.3
	1988	42.9	27.4	2.8	21.0	6.0
Dis. Cities	1978	32.2	46.4	2.8	15.1	3.5
	1988	33.8	42.6	2.9	16.6	4.0
Counties	1978	32.9	43.2	1.6	17.3	5.0
	1988	34.2	37.8	1.6	19.6	6.8
Districts	1978	29.2	47.4	1.6	13.7	8.1
	1988	29.7	45.2	1.8	15.9	7.4
Total	1978	39.2	29.7	3.9	21.4	5.9
	1988	39.1	27.3	3.2	23.1	7.4

* PIL refers a to payment in lieu of taxes paid on a tax exempt property.

On a province-wide basis, property taxes have remained relatively stable as a percentage of municipal revenues. During this ten year period, the more urban municipal sectors (i.e. Metropolitan Toronto, regions and county cities) have decreased their reliance on property taxes. During the same period, district cities, counties and districts have all increased their reliance on the property tax as a source of revenue. Even so, these rural and northern areas continue to rely more heavily on provincial transfers as a source of revenue and significantly less on property taxes.

Provincial transfers to municipalities have significantly decreased during this period. Transfers have declined as a proportion of revenue in all municipal sectors except

Metropolitan Toronto where transfers grew slightly in importance. In spite of this increase as a portion of total revenue, metro municipalities receive proportionately the least in provincial transfers and are the most reliant on user fee revenues. This is due in part to the role of transit fares in Metro's revenue structure. Over 60 per cent of all transit fares in Ontario are collected in Metro Toronto.

User fee revenues have grown relatively quickly from 1978 to 1988, increasing at an average annual rate of 11.1 per cent across the province. The district cities had the slowest annual growth in user fee revenue, at 8.8 per cent, and the fastest growth occurred in the regions, at 12.1 per cent. The fastest growing user fees were those for general government and environmental services.

CHAPTER TWO

ROLES AND RESPONSIBILITIES OF BOTH LEVELS OF GOVERNMENT

2.1 The Role of Local Government

The Ontario Committee on Taxation, generally known as the Smith Committee, pointed out that local government plays two important roles.[8] Its primary role is to provide a number of important services to the public. However, the report noted that the function of local government is not merely to decentralize the administration of provincial services; it also provides opportunities for, and access to, local decision-making. Indeed, local governments have a political strength which flows from their role as major service providers and from their status as elected governments representing local interests.

This assessment of local government has not always been given its due by the provincial and federal levels of government, particularly in view of the transfer payments and responsibilities they pass on to the local level.

While the Province always has responsibility for passing legislation and establishing broad policy parameters, in many service areas the municipalities have considerable scope to determine the level of service provided, as well as the manner of delivery. In some cases municipalities may decide not to offer a particular service at all. Recreation, garbage collection and fire protection are examples of services that are substantially controlled at the municipal level. In situations where municipalities are

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[8] Ontario, The Ontario Committee on Taxation (Smith Committee), Report (Toronto: Queen's Printer, 1969), vol.I, p.46.

responsible for the management of a given service, they can be considered as local providers of service.

Where municipalities and the Province are jointly responsible for service management, municipalities may be considered as co-providers of services. Some examples of situations where this currently occurs are day care, and sewer and water treatment.

Where municipalities deliver programs but have little or no management responsibilities, they may be considered local agents of the Province. Some examples of this are shoreline assistance and the tile drainage loans.

2.2 Principles for Assigning Responsibilities

The division of responsibilities between the provincial and municipal levels of government has changed over time and will continue to do so in the future. No static analysis can adequately capture the forces that drive the provincial-municipal relationship. While this relationship has been, and will continue to remain, fluid, in the past the fluidity has been largely the result of unilateral decisions made by the provincial and federal levels of government rather than the result of co-operative consultation and decision making based on sound principles.

To aid in making rational and effective decisions on the division of responsibilities in the years ahead, the Committee developed six principles which give guidance in three areas:

1. the degree to which the municipal sector should have responsibility for policy/service management of a given service;

2. whether the municipal sector should have responsibility for delivery of a service; and

3. the manner and degree to which the municipal sector should be involved in financing the service.

The Local versus General Criterion[9]

One of the most time-honoured principles regarding the division of responsibility among the various levels of government is the distinction between services which have a local impact and those with a more general application. For example, fire protection has a local impact in that the beneficiaries of the service are the local residents. University education, on the other hand, confers benefits on society as a whole. As a general rule, services which exclusively benefit property and/or its occupants are local in nature.

Some services have impacts which are not province-wide, but extend beyond a municipality's boundaries. In these cases, "spillovers" are said to occur. These spillovers may confer benefits (positive spillovers) upon neighbouring municipalities, where they may be received free. Or, they may have negative impacts (negative spillovers).

In the case of positive spillovers, the Province may have a role to play in ensuring that the service is provided by the host municipality. Arterial roads and connecting links are one example of a positive spillover, since roads built in one municipality benefit residents in other municipalities who use them free of charge. If the municipality that provides the roads merely takes the needs of its own

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9 To develop its principles, the Committee relied in particular on the work of Stefan Dupré for the Ontario Committee on Taxation, 1967.

residents into consideration, several problems arise. First, the municipality would not build as many roads since the number of roads needed to serve its own residents is less than the number needed to serve both its own residents and those from neighbouring jurisdictions. Secondly, it is not likely that local roads would be built with a view to connecting with other roads and highways that cross municipal boundaries.

In order to avoid these problems, the needs of people who live outside municipal boundaries must be taken into account. The problem is that an individual municipality would be reluctant to build its roads with a view toward the larger picture because it would be unfair to charge its own residents for roads which will be used by other people. As a result, the Province has a role both in determining the location of roads which carry goods and people across municipal boundaries, and in their financing.

In the case of negative spillovers, the Province usually acts as a regulator, to reduce or eliminate negative impacts on neighbouring municipalities. For example, a service in one municipality such as an incinerator that produces air pollution, may impose costs on neighbouring municipalities. However, the municipality where the incinerator is located is only concerned about the costs imposed on its own residents. As a result, it may incinerate more garbage than it would if its own residents had to absorb the total cost of the resulting pollution. Again, a case can be made for the Province to take some responsibility with regard to regulation and, if possible, with regard to financing the amelioration of negative spillovers.

The Optional versus Mandatory Criterion

It can be argued that in situations where for some reason -- whether it be social objectives, spillovers or some other provincial interest -- a service is mandatory, provincial funding should accompany such responsibilities. On the other hand, where services are optional -- that is, they are provided at the discretion of the municipality -- it can be argued that they should be funded by the municipal sector. In fact, this issue relates to the "pay for say" principle which suggests that municipalities should have discretionary powers over services equivalent to their financial contribution to that service.

The Need for Standards

While there is little doubt that service standards are of significant interest to the municipal sector, the Province may also perceive an interest. In some cases, such as pollution control standards, the standards are largely a means of controlling negative spillovers. In other cases, standards are established to achieve a social objective.

For instance, standards for general welfare assistance and many other social services serve an income redistribution function and are based on the principle that all citizens of Ontario are entitled to a minimum standard of income and service, no matter what their circumstances or where they live. In services where no variation in municipal standards is tolerable, there is a strong case for the Province to be responsible as service manager.

Distinction Between Finance and Administration

There may be situations where the primary responsibility for managing a service is provincial but where it is desirable to have local government involved in its delivery. In such

a situation, funding and service management should be primarily or exclusively provincial responsibilities, while delivery should be local. One example is General Welfare Assistance. In essence, a municipality's ability to make an immediate response and its knowledge of local economic circumstances and conditions may make it the most effective delivery agent, even though the Province, with its responsibility for income redistribution, should be the service manager and financier.

Accountability

There are two types of accountability, both of which must be considered in the allocation of responsibility for service provision. The first is political accountability to the electorate. The Ottawa-Carleton Regional Review has defined this kind of accountability as:

> ... the ability of the electorate to hold their representatives responsible ("to account") for their actions... Such accountability requires that the public understand the responsibilities, roles and functions of their elected representatives. In addition, in order to hold their elected representatives to account, members of the public must be able to express their satisfaction or dissatisfaction through the ballot box. Also, if politicians are held to account, they must have some authority to deal with those matters for which they will be held responsible and they must have influence over decisions on those matters. Authority and responsibility, therefore, must be clearly defined and properly focused.[10]

This is closely related to the argument that municipalities should have discretionary powers over services provided equivalent to their financial contribution to that service.

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[10] Ottawa-Carleton Regional Review, Phase One Report: Accountability and Representation (Toronto: Queen's Printer, 1989), p.1.

It should be noted that such accountability does not exist in the case of statutory special purpose bodies (as distinct from special purpose bodies set up by and reporting to local councils) such as conservation authorities and police commissions. Such bodies are presently funded from the local tax base but they are not answerable to local councils. (For a more detailed discussion of this issue, see 3.6.)

The second kind of accountability is financial, focusing on the obligation to report. In cases where one level of government is responsible for policy/service management and financing, and another is responsible for delivery, then both the financier and service deliverer must be held accountable. The present system of accountability with regard to transfers was developed by the Management Board of the Ontario cabinet in response to the Provincial Auditor's concerns about receiving "value for money." The Auditor wanted Management Board to clarify its expectations of transfers.

In response, Management Board developed a framework against which to audit its transfers. The focus was to develop an understanding between donor and recipient of the expectations for transfers and confirmation that those expectations are met.[11]

Economies and Diseconomies of Scale

Economies of scale is one factor that should be considered in determining which level of government should produce a service. Economies of scale exist where the unit cost of producing a good or service decreases as the quantity

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[11] Management Board of Cabinet, Transfer-Payment Accountability,and Manager's Guide, Directive 1-11, 1988.

increases. This may result from discounts associated with large purchases of inputs, or from managerial efficiencies. In cases where the optimal scale of production is very large, a service might be best produced by the provincial or the federal government. For example, the power-generating capacity and transmission network of Ontario Hydro enjoys economies of scale which could not be realized if hydro generation was performed municipally. On the other hand, there are situations where significant diseconomies of scale would be incurred if the Province produced a service because the appropriate population for efficient production is much smaller than the province as a whole.

It must be realized that individual services achieve economies of scale at different levels of production. The optimum population for providing water may be different from that for providing public transit. Since a municipality provides a wide variety of services, it will likely experience diseconomies of scale for some services while enjoying economies of scale for others. Where the most efficient scale is small, it is appropriate for lower-tier municipalities to provide the service. Where economies occur at large levels of output but not so large as to justify provincial delivery, a case can be made for having the service provided by the upper tier.

Committee Recommendation

1. **The Advisory Committee has adopted and applied the following principles and recommends that they be used to guide the allocation of roles and responsibilities for the policy/service management, delivery and funding of services:**

a. **To the extent that income redistribution is a program or service objective, policy/service management and program financing should be provincial responsibilities.**
This principle stems from the fact that income redistribution programs are based on the premise that Ontario citizens, no matter where in the province they live, are entitled to some minimum standard of income and amenities. This implies that these programs are mandatory and that province-wide standards are necessary. As well, income redistributive programs are more properly general rather than local because of the economies of scale necessary to their effective operation. It would not apply to any income redistribution program that municipalities may choose to offer their residents that raised standards above the minimum set by the Province.

b. **The degree of involvement in policy/service management for each level of government should be determined by the type and level of spillovers.**
Where benefits of a particular service accrue almost exclusively to residents of a municipality, the municipality should finance the service and also be the policy maker and service manager. Where there are spillovers (benefits or adverse consequences which flow outside the boundaries of the providing municipality), the Province should provide financing and take policy/service management responsibility in proportion to the degree of spillover. Where benefits of a service accrue proportionally to all Ontario residents, the Province should take full responsibility for financing and policy/service management.

c. **Services should be produced at the level of government that can do so most economically.**
Notwithstanding which level of government is most

appropriate to be the financier, policy maker/service manager or service deliverer, if economies of scale would result, then the Province should be the service producer. Similarly, if diseconomies of scale are evident, municipalities should produce the service. Where there are economies of scale to be achieved but diseconomies set in before the size of the Province is reached, upper-tier municipalities should produce the service.

d. **Services should be delivered by the level that can do so most effectively.**
Notwithstanding which level of government is most appropriate to be the policy maker/service manager and service financier, if knowledge of local circumstances and speedier response times mean that the municipal level would deliver services most effectively, then it should be the service deliverer. In cases where there is no municipal financing responsibility, the services could be delivered on a fee for service basis.

e. **The degree of involvement in service management for each level of government should be dictated by the level of interest or the need for standards.**
Where it is in the public interest to have standards --- for instance, so that people can travel freely from place to place, or customers can purchase goods and services in various places and be able to expect some given standard of quality and/or safety --- the Province should be involved in service management. However, where the benefits of the standards accrue primarily to the residents of the municipalities, such as building codes, there is justification for municipal financing. For such cases, enforcement should be municipal. This principle implies that as a general rule, the policy maker/service manager

should be, or should report to the level of government responsible for financing.

f. **The allocation of policy/service management, financing and delivery responsibilities should be based on promoting accountability.**
Generally, it has been found that accountability is best served when the body that makes expenditures is also responsible for raising the revenues that make those expenditures possible. This implies that where possible, there should be a clear delineation of policy/service management, delivery and funding responsibilities. It also indicates that the degree to which a level of government is policy/service manager for a service should typically determine its funding responsibility. Consequently, if a level of government acts only as the delivery agent for a service, it should do so on a fee for service basis.

CHAPTER THREE

PROPOSED REALIGNMENT OF RESPONSIBILITIES BASED ON PRINCIPLES

3.1 Background

The principles developed in Chapter Two suggest that, to the extent that it is workable, local government should have clearly assigned functions for which it is accountable, as well as access to sufficient revenues to be able to carry out those functions. The Province should endeavour to establish a legislative framework for municipalities which is consistent and promotes accountability in decision making. Although the Province must retain its ability to address its priorities, local autonomy is highly desirable.

Based on these principles, the Committee examined a list of functions with some current degree of municipal involvement. The Committee's consensus on a possible new division of responsibilities are presented in chart 3-1 and should serve as a blueprint for further analysis specific to individual services. For definitions of the function categories used, see Appendix 1.

The Committee categorized each dimension of service responsibility in the following manner: municipal, predominantly municipal, shared, predominantly provincial, or provincial. Policy/service management determines the level of government best suited to make policy and service management decisions regarding the level and nature of the service and the manner in which it is delivered. Service delivery determines the level of government best suited to actually deliver the service and entails very little scope for management decisions. Service funding indicates the extent to which each level of government should finance the service related to the function.

Chart 3-1

THE DIVISION OF RESPONSIBILITIES BETWEEN MUNICIPAL AND PROVINCIAL LEVELS OF GOVERNMENT

FUNCTION	Decision Criteria (explained on next page) 1	2	3	4	5	6	Recommended Responsibilities Policy/ Service Mgt	Delivery	Funding	Current Percentage of Expenditures by Function Funded by Provincial Transfers 1988** Operating	Capital	Total
Gen'l Government	N	1	M	M	2	M	M	M	M	0.5	1.5	0.7
Fire	N	1&2	M	M	2	M	M	M	M	0.2	1.1	0.3
Police	N	2	M&S	M&S	3	M	S	M	S	12.0	1.0	11.7
Con. Authority	N	2&3	M&S	M&S	2	M	S	M	S	55.5	0.0	49.8
Protective Insp.	N	1	M	M	3	M	S	M	M	0.7	1.8	0.8
Roadways-Arterial	N	2&3	M	M	3	M	S	M	S	34.3	44.0	39.9
-Local	N	1	M	M	2	M	M	M	M	34.0	37.7	35.5
Winter Cntrl-Arterial	N	3	M	M	2	M	S	M	S	45.8	80.2	45.8
-Local	N	1	M	M	1&2	M	M	M	M	44.2	10.0	43.3
Transit	N	2	M	M	2	M	PM	M	S	17.7	59.6	25.3
Transit for Disabled	N	2	M&S	M&S	2	M	S	M	S	(included with transit)		
Parking	N	1	M	M	1	M	M	M	M	0.9	0.4	0.8
Street Lighting	N	1	M	M	1	M	M	M	M	0.5	5.1	1.0
Air Transportation	N	2&3	P	P	3	P	P	M	P	8.4	58.0	28.6
Sanitary Sewer-Plant	N	2	M	M	3	M	S	M	S	1.3	28.3	13.6
-Collection	N	1&2	M	M	2	M	PM	M	M	1.3	28.3	9.3
Storm Sewer-Arterial	N	2	M	M	2	M	S	M	S	5.5	13.6	11.2
-Local	N	1	M	M	2	M	M	M	M	5.3	23.0	15.5
Water Works-Plant	N	1&2	M	M	3	M	PM	M	S	0.1	24.0	11.2
-Distribution	N	2	M	M	2	M	PM	M	M	0.1	24.0	7.3
Garbage Collection	N	1	M	M	1	M	M	M	M	1.8	7.7	2.3
Garbage Disposal	N	2	S	M	3	S	S	S	S	3.7	12.2	6.4
Pub. Health Services	N	2	S	P	3	S	PP	S	P	67.8	54.6	67.3
Pub. Health Insp.	N	1	M	M	2	M	PM	M	M	28.1	6.9	22.4
Hospitals	N	3	P	P	3	P	P	P	P	0.1	1.3	0.7
Ambulance Services	N	2	P	P	3	P	P	P	P	57.2	3.0	53.0
Cemeteries	N	1	M	M	2	M	M	M	M	0.2	0.2	0.2
General Welfare Ass.	Y	3	P	P	3	P	P	M	P	74.4	8.4	74.3
Ass. to Aged (Homes)	Y	2	P*	P*	3	P*	P	M*	P	68.1	46.1	64.9
Community Services	N	2	M	M	1&2	M	PM	M	M	0.0	n/a	0.0
Children's Welfare	N	3	P	P	3	P	P	P	P	1.8	11.5	1.9
Child Care	Y	2	M	S	2&3	P	P	S*	P	76.1	46.7	75.7
Parks	N	1&2	M	M	1	M	M	M	M	1.7	12.2	4.2
Recreation	N	2	M	M	1	M	M	M	M	(included with parks)		
Libraries	N	1&2	M	M	1&2	M	PM	M	M	12.2	12.7	12.2
Cultural Activities	N	2	M&S	M&S	1	M	M	M	S	3.4	21.2	5.7
Planning & Zoning	N	2	M	M	2	M	PM	M	M	3.3	18.5	4.4
Economic Development	N	2	M	M	2	M	PM	M	M	3.5	6.2	4.8
Assisted Housing	Y	2	P*	P*	2	M*	PP	S*	P	3.1	2.2	2.4
Agri. & Reforestation	N	1	M	M	2	M	PM	M	M	13.9	27.5	20.4
Tile Drainage	N	1	P	M&P	1&2	P	P	M	P	1.0	n/a	1.0
Shoreline Assistance	N	1&2	P	P	2	P	P	P	P	(included with tile drainage)		
									Total	20.2	26.8	21.7

* indicates that the service may be effectively delivered through a number of agencies including non-profit and private

** Includes the value of free policing and transfers directly to Conservation Authorities

Chart 3-1 b
KEY FOR COMMITTEE RESPONSES

Decision Criteria

Committee members were asked to evaluate each of the functions according to the questions listed below:

1) Is the program's objective income redistributive in nature? (Y=Yes or N=No)

2) Does the provision of the service produce spillovers? (1=few or none, 2=some spillovers, or 3=significant spillovers)

3) Which level of government can produce the service most economically? (M=municipal, S=shared or P=Provincial)

4) Which level of government can deliver the service most effectively? (M=municipal, S=shared or P=Provincial)

5) Is there a need for uniform standards? (1=few or no standards required, 2=some standards required, or 3=many standards required)

6) Service provision by which level of government will foster accountability? (M=municipal, S=shared or P=Provincial)

Recommended Responsibility

Based on their rating of each function using the above criteria, Committee members were asked to assign responsibility for policy/service management, delivery and funding:

- Policy/service management determines the level of government best suited to make policy and service management decisions. These are decisions regarding the level and nature of the service and the manner in which it is delivered.

- Service delivery determines the level of government best suited to actually deliver the function and entails very little scope for management decisions.

- Service funding indicates to what extent each level of government should be responsible for financing the function.

For each dimension of responsibility, functions were rated as being most properly: M - Municipal; PM - Predominantly Municipal; S - Shared; PP - Predominantly Provincial; or P - Provincial.

3.2 Municipal Responsibilities

The Committee determined that the provision of the following functions should be either solely or predominantly municipal responsibilities in terms of policy/service management and financing: general government, fire, local roadways, local winter control, parking, street lighting, local storm sewer systems, sanitary sewer-collection, water works-distribution, garbage collection, public health inspections, cemeteries, parks and recreation, libraries, planning and zoning, economic development, agriculture and reforestation, and community services. These are functions where the group that benefits can be identified as being predominantly, if not totally, local. In such cases, allocating these services at the municipal level promotes efficiency because the services provided by each municipality will more closely correspond to the preferences of local residents than would be the case if provided province-wide. For these services, municipalities would act as local providers of services.

The Committee also identified several functions for which policy/service management should be either solely or predominantly a municipal responsibility but for which financing should be a shared responsibility. These functions are transit, waterworks-plant and cultural activities.

3.3 Shared Responsibilities

As a co-provider of a service, a municipality's scope for local decisions regarding management and delivery may vary significantly depending on the service. Similarly, Provincial involvement may also vary significantly.

The following services are those that the Committee believes should be a shared responsibility with the municipal sector acting as a co-provider of services with the Province: police; conservation authorities; collector, county, arterial and regional roadways; collector, county, arterial and regional winter control; transit for the disabled; cultural activities; sanitary sewer-plant; collector, county, arterial and regional storm sewer system; and garbage disposal. In the case of protective inspection and control, the Committee felt that policy/service management should be a shared responsibility but funding should be a municipal responsibility.

3.4 Provincial Responsibilities

Services with significant spillovers and/or a strong need for provincial standards are most appropriately provincial responsibilities. Uniform and province-wide access is generally an important feature of these types of services and as a result they are usually characterized by tight legislative or regulatory control. Consequently, the municipal sector can exercise little authority or control and should be relieved of financial responsibility for these services. Ideally, the Province would act as the policy maker/service manager, choosing the delivery methods and allocating its available resources among programs and delivery agents. The municipal sector would either have no role or be restricted to that of local service delivery agent.

Similarly, services that have income redistribution or stabilization as their major purpose should be a provincial and/or national responsibility because of the economies of

scale involved and the ability to fund such programs from income-based revenue sources such as corporate and personal income taxes. These types of service cannot be performed adequately at the local level as the ability to finance them varies greatly from municipality to municipality. For instance, if a plant closes in a single-industry town, municipal government is least able to afford general welfare assistance costs at the time they are needed most. Alternatively, since the province's economy is the aggregate of a number of regional economies, it has greater scope for income redistribution than any individual municipality.

The Committee has determined that the Province should be predominantly or solely responsible for policy/service management and financing in the following services: air transportation, public health services, hospitals, ambulance services, general welfare assistance, children's welfare, assistance to the aged (homes), child care, assisted housing, tile drainage and shoreline assistance.

Perhaps the most significant changes indicated by the application of the Committee's principles emerge in the area of health and social services, including general welfare assistance. The Committee argues that the provision of these services and their funding is most appropriately the exclusive responsibility of the Province, except where there are significant benefits to be gained from local administration.

In the case of health services, the Committee notes the potential for spillover effects in this service. The importance of establishing preventative health measures with a view toward improving the general well-being of the population is not logically a local responsibility as there

is a social value to having a healthy population. Therefore, in most instances, the need for uniform provincial standards was deemed to outweigh the benefits of local discretion in the provision of these services.

In the case of social services, including general welfare assistance, the Committee's position is that these services are important income redistribution mechanisms and therefore should be a provincial responsibility.

The provision of services to the elderly permit the elderly to live as independently as possible in communities throughout Ontario. It is a function that municipalities have been involved in for a significant period of time. Municipalities have also had a mandatory responsibility to administer homes for the aged. In northern Ontario there are district boards to administer homes for the aged. Discretionary involvement exists in such areas as homemakers and nursing services, elderly persons' centres, and home support services.

However, given the redistributive nature of elderly assistance and the need for uniform standards, the Committee decided that the responsibility for homes for the aged and non-community based services for the elderly should be predominantly provincial, although it concluded that these services should be delivered locally. There are significant benefits to be gained in local administration, particularly in homes for the aged. In addition, it was recognized that homes for the aged may be effectively delivered by a variety of non-government organizations.

The Committee notes that some of its recommendations are at odds with the findings of the Social Assistance Review

Committee (SARC) and the Provincial Municipal Social Services Review (PMSSR). These differences are likely due to the limited mandate afforded PMSSR when compared to this exercise, rather than to true differences in philosophical approach. PMSSR examined the realignment of services but was effectively limited to recommending changes that did not increase costs to either level of government.

On the other hand, this Committee had the latitude to recommend changes in the context of the full provincial-municipal partnership. If PMSSR's framework had been less restrictive, the Committee believes that the question of a municipal contribution towards the costs of administration for general welfare assistance, family benefits allowance, supplementary aid and special assistance would likely have been resolved.

The Committee also notes that it is at odds with the PMSSR on assigning the responsibility for child care. PMSSR concluded that the level and type of child care facilities need not be uniform across the province and that it would be appropriate for municipalities to assume the role of service manager. This means that municipalities would decide whether child care would be provided, and if so, how to deliver the service (directly, through non-profit agencies and/or the private sector). They would also carry out licensing and monitoring of facilities.

This Committee, on the other hand, determined that the overall provision of child care should be a provincial responsibility. However, a service-specific analysis would likely examine the subsidy and program elements of child care separately. It was felt that child care subsidies represent a substantial income redistribution mechanism and

as such are not an appropriate municipal function. However, the effective delivery of this service may be provided by a variety of agents.

Committee Recommendation

2. **The Committee's proposed framework should be adopted by the Province as a guide for realigning provincial-municipal responsibilities.**

3.5 Expenditure Implications of Realigning Responsibilities

Table 3-1 summarizes the impact that the Committee's proposed realignment of expenditure responsibilities would have on the municipal sector. See Appendix 2 for the methodology used and analysis of the proposed realignment by sector. In general, the Committee felt that where municipalities have sole responsibility for providing a service, they should incur 100 per cent of the costs associated with the provision of that service. In the case of a wholly provincial responsibility, there should be no municipal contribution. If municipalities act as delivery agents, they should do so on a fee for service basis.

For the purposes of this analysis, a 50 per cent transfer rate was applied to those functions that are most properly a shared funding responsibility. This transfer rate was applied to total expenditures except in the case of transit, where the transfer rate was applied after user fees. This recognizes the unique role that user fees play in the provision of transit services.

The 50 per cent transfer rate for shared responsibilities was applied to both operating and capital expenditures. This approach recognizes that to some extent the division between capital and operating expenditures is artificial. Capital expenditures can dictate the level of operating expenditures required to provide a service and conversely, operating expenditures can often act as a substitute for capital expenditures. Therefore, transfer rates which vary between capital and operating purposes may distort the decision making process. An exception to this general rule was made in the area of water and sewer expenditures. In recognition of initiatives toward cost recovery through greater use of user fees, no provincial transfers were applied to water and sewer operating expenditures.

Table 3-1
Increase/(Decrease) in Net Municipal Expenditures*
Due to Realigned Expenditure Responsibilities, 1988

	Operating	Capital	Total
	$000	$000	$000
Metro	(408,394)	(85,232)	(493,626)
Regions	(283,775)	(40,806)	(324,581)
Co. Cities	(94,189)	(9,422)	(103,611)
Dis. Cities	(25,274)	(2,098)	(27,372)
Counties	99,042	87,627	186,669
Districts	3,525	31,943	35,468
Total	(709,064)	(17,988)	(727,052)

* Net of transfers

As may be expected, the proposed realignment of responsibilities would have significant impacts on the municipal sector as a whole, as well as on individual sectors. It is expected that net municipal expenditures (net of transfers) would decrease by about $709 million in operating expenditures and $18 million in capital expenditures for a total decrease in net municipal

expenditure responsibilities of $727 million. This decrease in net municipal expenditures would result in an equivalent increase in provincial expenditure responsibilities. However, this analysis should be viewed with some caution as it does not consider whether it is appropriate that municipal revenues increase or decrease.

On a sectoral basis, Metropolitan Toronto's net expenditure responsibilities would decrease by the greatest amount, $494 million. This would be largely due to reduced policing and general welfare assistance operating costs. Counties would experience the largest increase in expenditure responsibilities, $187 million. This would be for the most part due to increased local roadway operating and capital costs.

3.6 <u>The Role of Special Purpose Bodies</u>

The Committee has found that, in general, accountability would be better served with fewer special purpose bodies. The issue here is not special purpose bodies that are directly accountable to municipal council; the Committee feels that the number and scope of these types of boards and commissions should remain a local decision. The problem arises from provincially mandated special purpose bodies where both political and financial accountability are beyond the reach of municipal council.

Political accountability is absent in that the majority of members of these bodies are often not elected municipal officials. Financial accountability is absent because these bodies can requisition funding from municipalities without obtaining council's approval. In other words,

municipalities have less authority over the daily operations and budgets of these bodies than their financial contribution would suggest. This violates the "pay for say" principle.

Since there are a significant number of special purpose bodies, large portions of the municipal budget are fixed by requisitions from these groups. This limits a municipality's ability to tailor services to best meet the needs of its citizens.

A key example of this problem occurs with police commissions. Municipalities that provide their own police service are required to have a police commission consisting of a majority of provincially appointed representatives. This commission annually determines the number of police officers and the standard of service to be delivered. It negotiates staff wages and benefits, strikes its own budget and requisitions the funds from council accordingly. Although there is every reason to believe the commission does this judiciously and prudently, council has no direct authority to overrule its decisions.

In situations where council disagrees with decisions made by a police commission, its only recourse is to appeal to the Ontario Police Commission. However, this body's predominant interest is adequate and effective police services in accordance with the needs of the municipality, rather than with the associated costs. Under these conditions, it is highly unusual for a municipality to win an appeal. This leaves municipalities with no recourse but to raise the required funds and be held accountable by the ratepayers for the decisions made by another body.

Committee Recommendation

3. **Each level of government should have representation on special purpose bodies commensurate with their responsibility and accountability for that service.**

3.7 Responsibility for Education

The assignment of responsibility for financing Ontario's educational system is beyond the mandate of the Committee. However, given that municipalities and school boards share the property tax base, and that this tax base is the major own-source revenue for each body, municipal financing matters cannot be effectively discussed without giving some attention to the financing of education. As a result, the Committee reviewed the work of the Select Committee on Education and the Commission on the Financing of Elementary and Secondary Education in Ontario (the MacDonald Commission). In particular, the Committee noted the MacDonald Commission's proposal that an education property tax credit be established. The Committee agreed that the proposal is worthy of further pursuit by the Ministry of Education.

Total education expenditures in Ontario, both mandated and non-mandated, are expected to be roughly $12 billion in 1990. The property tax is expected to fund almost 55 per cent of these expenditures compared to less than 47 per cent of total education expenditures financed from the property tax in 1978. This 8 per cent increase is equal to a $950 million increase in the share of education expenditures funded from the property tax in 1990 alone.

Table 3-2 shows how the proportion of property tax revenues used for education purposes has grown over time across Ontario. This increasing use of the property tax base for education purposes has significant implications for municipalities as these revenues are now shared on a roughly equal basis. As education's share increases, there will be less room for municipalities to raise revenues for their own purposes from the property tax.

Table 3-2
Education Taxes as a Percentage of Total Property Tax

	1978	1988
	%	%
Metro	50.3	53.3
Regions	48.8	53.6
Co. Cities	44.1	47.6
Dis. Cities	46.1	48.3
Counties	54.4	57.3
Districts	46.5	49.5
Total	49.3	53.0

Although the Committee acknowledges that it would be financially and administratively impractical to move to a system where the Province funds 100 per cent of education costs, it recognizes that the growing trend of increasingly financing education from the property tax undermines the effectiveness of this revenue source to fund municipal services. Education is a broad based service benefitting all society and as such it should be funded from more progressive revenue sources.

Committee Recommendations

4. **The share of the property tax base used to support provincially mandated education programs should be decreased**

by increasing provincial funding, thereby lifting some of the load off property taxes.

5. The Committee endorses a number of recommendations made by the Select Committee on Education:

- The Ministry of Education should consult with the key partners in education as soon as possible in order to:

  - determine a clear and understandable mode of calculating the cost of providing the education services mandated in the Education Act and identifying the basic components of recognized expenditure; and

  - develop a rational means of updating these cost calculations and ceiling determinations within a realistic expenditure framework.

- In reviewing the overall calculation and adequacy of provincial operating and capital transfers, the Minister of Education and key partners in education should examine how to improve equitable access to education resources throughout the province.

- The Minister of Education should establish a task force to examine options to make the tax base for education funding more progressive.

- The Ministry of Education should conduct all policy reviews with the goal of simplifying the structure of education finance.

CHAPTER FOUR

A NEW TRANSFER SYSTEM TO COMPLEMENT THE NEW DIVISION OF RESPONSIBILITIES

4.1 The Rationale for Transfers[12]

Provincial-municipal transfers can be divided into two types: conditional and unconditional. As their name suggests, conditional transfers are those which are given on the condition that specified goals are achieved, specified monies are spent, and/or specified standards are met. In the case of unconditional transfers, there are no conditions attached to the way municipalities disperse the funds, so long as they have statutory authority for the service they provide. However, while there are no conditions on how the money is dispersed, to be eligible for certain unconditional transfers, criteria or conditions must be met. For example, only northern municipalities are entitled to a Northern Support Grant (NSG), and only municipalities that pay for their own policing receive the Police per Household Grant.

Transfers have been provided over the years to achieve four main purposes:

a. to address the issue of spillovers and the fact that municipalities may be co-providers of service with the Province or local agents for the Province. (Transfers that address this issue are generally conditional).

b. to compensate municipalities which, for reasons beyond their control, have higher than average costs for certain basic services. (These transfers are largely

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[12] In this report, the Committee has made a conscious decision to refer to transfers instead of grants. This reinforces the notion that the people of Ontario are best served by a provincial-municipal relationship that is a partnership rather than a superior-subordinate relationship as the term grant implies. Furthermore, many transfers to municipal governments simply allow municipalities to deliver provincial programs.

conditional but some aspects of the unconditional transfer system address this as well.)

c. to address unequal fiscal capacity among municipalities by providing more revenue to municipalities which are least able to generate revenue locally. (At present these transfers are both conditional and unconditional transfers.)

d. to help fund responsibilities assigned to the municipal sector which exceed its ability to raise revenues from its assigned tax bases. (Unconditional transfers act as a substitute for access to other revenue sources.)

4.2 <u>The Present Transfer System</u>

The Province allots unconditional and conditional transfers to upper-tier and lower-tier municipalities for both operating and capital purposes. While transfers grew substantially throughout the 1980s, growth did not keep pace with the growth in municipal expenditures. As shown in Table 1-11, transfers fell as a percentage of municipal expenditures from 29.7 per cent in 1978, to 27.3 per cent in 1988.

Unconditional transfers comprised 37.0 per cent of total operating transfers to municipalities in 1978. By 1988 this proportion had fallen to 29.0 per cent, indicating a significant shift away from unconditional funding in order to support provincial priorities.

The relative importance of transfers as a revenue source varies significantly depending upon a municipality's responsibilities and, to a lesser degree, whether it is located in the north. For example, although counties and regions are both upper-tier municipalities, their responsibilities differ greatly (regions fund their own police forces and counties get free OPP protection) and this

affects the pattern of revenue sources. In addition to providing their own police forces, regions also tend to provide more comprehensive social services and health.

Generally, the more urban the area, the greater the number of services provided by the municipality. Also, the urban municipalities raise more of their own revenues. In 1988 counties received 37.8 per cent of their operating revenues in the form of conditional and unconditional transfers from the province. Metro Toronto, on the other hand, received just 23.1 per cent of its revenues in the form of transfers.

Different patterns of support are also evident in comparing the north with the south. For example, transfers account for 27.4 per cent of total operating revenue for county cities, but 42.6 per cent in district cities. Since the relative importance of payments in lieu (PILs), user fees and other revenues are similar, the different rates of support contribute to a greater reliance on the property tax as a revenue source in the south as compared to the north. Expressed in dollars per household, operating transfers to district cities are about $1,390 per household while the corresponding amount in county cities is about $713.

On the capital side, Ontario transfers went from 28.5 per cent of total municipal capital spending in 1978, to 25.1 per cent in 1988.

4.3 Concerns about the Overall Transfer System

Too Many Conditional Transfers

The Report of the Provincial-Municipal Grants Reform Committee, completed in 1977, identified approximately ninety separate conditional transfer programs allocating about $1.5 billion (excluding education transfers). The Committee felt that this was an excessive number which contributed to other problems such as confusion and uncertainty among recipients. Not only does a large number of grant programs inevitably result in different application and reporting systems, some grants are over-subscribed which means that even municipalities that qualify can not count on receiving funds. Excessive administrative requirements and too much "entanglement," which impairs local autonomy, were also identified as problems.

Since that report was completed, the number of transfers has not been reduced. In a recent survey conducted in conjunction with the Province's Conditional Grants Review, the Ministry of Municipal Affairs identified 137 separate transfer programs dealing with both capital and operating transfers in the amount of approximately $3.4 billion (excluding education transfers). Since then, the number of transfer programs has been consolidated somewhat, but it is still in excess of one hundred.

In response to these and other issues, numerous strategies have been recommended to reduce the number of conditional transfers. These include:

- elimination of transfers which no longer serve a useful purpose;
- elimination of conditional transfers in favour of increased unconditional funding (deconditionalization);

- elimination of conditional transfers by creating more tax room for municipalities to finance services from own source revenues (Quebec model);
- consolidation of similar transfers into larger transfers (i.e. block funding); and
- transfer of responsibility to the Province with full provincial funding.

Inconsistent Approaches to Equalization

Many transfers, whether conditional or unconditional, capital or operating, incorporate equalization components which are intended to provide greater assistance to those municipalities less able to finance their share of a program's costs. A variety of techniques have been used to determine a municipality's ability to pay, including transfer rates which are based upon population (e.g., Ministry of Environment (MOE) sewer and water transfers), on assessment (education transfers, the Resource Equalization Grant) or geographic location (higher transfer rates to northern municipalities under the NSG).

Some of these approaches suffer from significant technical and conceptual problems. For example, the underlying assumption in MOE's transfer program is that small municipalities have weak tax bases. However, this is not always the case.

Many municipalities receive transfers based on property assessment. But this creates numerous problems since local property assessment values in most municipalities are not at market value. Further, it is not clear that market value assessment is an appropriate indicator of the ability of the residents of a particular municipality to pay taxes. For example, the market value of a single-family home may be three to four times that of a similar home in another area

of the province. However, incomes may not be that much higher in the high-value area and the home owners may not be more able to afford a higher property tax bill. This is particularly evident in the case of some older people who are living on fixed incomes, but whose homes have increased dramatically in value since they were purchased. In other words, relative assessments among municipalities do not always reflect their resident's relative abilities to pay.

Another issue with regard to assessment-based transfers is that assessment in one municipality cannot be directly compared with those of another municipality. In order to make the assessment comparable, local property assessment values must be converted into market values by using a system of conversion rates called equalization factors. By applying the equalization factor to the total local property assessment of a municipality, the result is equalized to a market value assessment. But the problem with comparing the equalized assessments is that municipal taxes are levied on local property assessment values, not equalized values. Therefore equalized assessment is not a good indicator of a municipality's ability to raise tax revenues.

Adequacy

Municipalities have argued that provincial initiatives have imposed a higher financial load on their resources in recent years. This has not been accompanied by a corresponding transfer of funds.

Court security provides one example of a provincial initiative that off-loaded responsibility to the municipal sector. An additional burden is also imposed when higher sewage treatment standards or higher welfare rates are legislated by the Province. Finally, the municipal burden

is increased by general measures such as the tire tax, occupational health and safety legislation, pay equity and the employer health tax, all of which impact on municipalities as employers and purchasers.

While these initiatives have worthy aims, collectively the financial impacts are significant. At the same time, transfers have lagged behind the growth in municipal expenditures.

Certainty

Municipalities have long complained about the difficulties of undertaking financial planning when transfer levels are announced on an annual basis and fluctuate significantly on a program basis from year to year. The following table, 4-1, illustrates this point. Long-term planning is made difficult if funding levels fluctuate significantly either in total or on a service by service basis. If transfer levels are not stable, significant and unanticipated property tax increases may be necessary.

Table 4-1
Changes in Transfers for Specific Services

	1985-86	1986-87	1987-88	1988-89	1989-90
	$Million	$Million	$Million	$Million	$Million
Roads	527	549	624	678	678
% chg	n/a	4.2	13.7	8.7	0.0
Transit	262	267	322	337	393
% chg	n/a	1.9	20.6	4.7	16.6
Gen. Welfare	478	543	613	674	766
% chg	n/a	13.6	12.9	10.0	13.6
Day Nurseries	9	13	29	50	53
% chg	n/a	44.4	123.1	72.4	6.0
MOE	118	103	138	148	184
% chg	n/a	(12.7)	34.0	7.2	24.3

4.4 Concerns about Unconditional Transfers

The present unconditional transfer system has five components plus a revenue guarantee. A description of the overall program and its distribution among municipalities is provided in Appendix 3.

Three of the components are for special purposes: the Police per Household Grant, the Northern Support Grant (NSG) and the Resource Equalization Grant (REG). It is not certain that the inequalities that these special purpose funds are designed to correct would still exist after the proposed realignment of responsibilities. Nor is it clear that unconditional transfers are the most appropriate way to address those inequalities if they still remained.

Police per Household Grant

While referred to as a Police per Household Grant, the $50 per household rate is not meant to be a direct subsidy to cover municipal policing costs, even though it is now perceived by municipalities (and indeed police commissions) as such. As a result, the level of assistance is often criticized by municipalities as providing inadequate compensation for policing costs (the average expenditures on policing of municipalities that must pay for the service is $290 per household). This argument acquires even more significance when one considers that some six hundred municipalities receive free OPP policing (a 100 per cent subsidy rate).

Northern Support Grant

The Northern Support Grant (NSG) which was introduced in the 1973 Ontario budget, had two purposes. First, it was intended to recognize the higher costs of providing services

in the north and therefore, higher living costs; and secondly, it was to compensate northern municipalities for the termination of mining payments. Prior to 1973, a portion of the mining profits tax paid to the Province was shared with municipalities in which miners resided. This was done in recognition of the fact that the employees of the mines used municipal services but the Assessment Act provided that mines were exempt from realty and business taxes. In 1973, these payments to municipalities were replaced by the NSG, as well as the General Support Grant and REG, and the property tax exemption for mines was repealed.

In introducing the NSG, the Honourable John White, Treasurer of Ontario, summarized the problems of the north:

> These communities have to cope with problems related to severe winters, high transportation costs, unusual geographic features, and lack of certain services -- all of which lead to higher costs of municipal services and a higher cost of living to Northern taxpayers.[13]

The NSG transfer program was reviewed by the Provincial Auditor in 1988. He was critical of the fact that there was no analysis to support the previous transfer rate of 18 per cent to the north and suggested that the rate did not reflect cost differentials in providing municipal services in the area. The Auditor concluded:

> In comparing property taxes in northern and southern municipalities, we noted that the average residential property tax in northern municipalities ($600 per household) is approximately half that of Metropolitan

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[13] Honourable John White, Budget Statement, 12 April 1973, p.15.

> Toronto ($1,350) and the entire Province ($1,100).[14]

Further, the Auditor found that:

> ... analysis of the costs of three principal commodities revealed marginal differences in the cost of food and gasoline. Housing prices, however, were significantly higher in southern Ontario ... (and) the difference in income is marginal between northern and southern communities.[15]

The Auditor recommended that the Ministry review the rate of support to the north to ensure that it reflect current economic conditions. The Ministry agreed to such a review. This Committee addresses, in part, the requirements of the recommended review.

Appendix 3 shows that municipalities in the south receive a transfer equal to 6.15 per cent of their levy and municipalities in the north receive 29.65 per cent. This means that the levy-based transfer paid to the north, excluding the REG, is five times that paid to the south. Current rates are equivalent to the transfer rates studied by the Provincial Auditor and reflect a redefinition of the levy base used, not a change in funding levels.

On a per household basis, the level of unconditional funding is significantly higher in the north than in the south. While this is largely the result of the NSG, the result is also reinforced by the fact that most northern municipalities receive significant funding under the REG and revenue guarantee. Moreover, northern municipalities tend

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14 Provincial Auditor, Annual Report, 30 November 1988, p.108.

15 Ibid.

to receive higher levels of conditional funding, resulting from the operation of equalization mechanisms within specific conditional transfers.

Table 4-2
1988 Transfers per Household

	Unconditional	Conditional*	Total
	$	$	$
South			
Metro	217	936	1,153
Regions	210	709	919
Co. Cities	258	581	839
Counties	169	804	973
North			
Region (Sudbury)	635	687	1,322
Dis. Cities	590	921	1,511
Districts	400	1,081	1,481
Total	238	784	1,022

* Includes capital transfers.

The higher rates of support for the north contribute to lower levels of property taxation, although the differences are not as pronounced as suggested in the Auditor's report. Variations in property tax levels are also the result of a number of other factors. These include differing commercial/residential assessment mixes, growth rates and municipal services provided.

Total municipal taxes per household are very similar in county cities and district cities and are actually higher in districts than in counties. When municipal residential taxes per household are examined, it is clear that they are higher in Metro Toronto and the regions than anywhere in the north. But municipal residential taxes are only somewhat higher in county cities than in district cities and are almost identical in counties and districts.

Table 4-3
1988 Transfers and Municipal Taxes per Household*

	Total Taxes**	Residential Taxes***	Transfers
	$	$	$
South			
Metro	1,745	840	1,153
Regions	1,206	809	919
Co. Cities	1,113	696	839
Counties	631	474	973
North			
Region (Sudbury)	1,036	561	1,322
Dis. Cities	1,103	658	1,511
Districts	715	471	1,481
Total	1,195	746	1,022

* Not including taxes for education purposes

** Taxes consist of property and business taxes and special charges for municipal purposes on residential, commercial and industrial property divided by the number of households

*** Taxes on an average residence consist of property taxes and special charges for municipal purposes

The Committee benefited from a review of the NSG undertaken by the Federation of Northern Ontario Municipalities and the Northwestern Ontario Municipal Association. The brief agrees that the NSG rate should be reviewed but says that any evaluation of the transfer rate should be done in light of the transfer's objectives, which include:

- keeping property taxes low in the north as part of the property tax stabilization plan;
- compensation for the loss of mining payments; and
- compensation for the higher costs of providing municipal services in the north.

Notwithstanding the debate on the validity of the rationale for the NSG, the Committee recognizes that its implementation and subsequent use have reflected judgments

by the government of the day and succeeding ones. It is the prerogative of the provincial government to target specific groups for assistance, but the municipal transfer system is an inappropriate vehicle to deliver such assistance. It should be delivered through direct provincial mechanisms such as the income tax credit. Resource equalization in unconditional transfers should be provided to municipalities based solely on need.

However, it must also be recognized that municipalities rely on the existing transfer levels. In many cases municipalities have made long-term financial commitments based on the assumption that present transfer levels provide a good indication of future expectations. Therefore, any transition to a new unconditional transfer system must be sensitive to municipal reliance on the existing transfer system.

Resource Equalization Grant

In addition to problems with the entire concept of equalization, there are technical problems with the use of equalized assessment in the REG formula. For example, the transfer is initially calculated by comparing the equalized assessment per household of the municipality against the simple average equalized assessment per household for municipalities across the province. To the extent that the simple average is affected by the high market value growth areas of the province, specifically the Greater Toronto Area and other regions, then transfers to other municipalities are affected by what happens in those areas. In effect, through the formula, municipalities in the regions automatically subsidize those in outlying areas.

Another key concern with the REG formula and the use of equalized assessment as an ability-to-pay criterion, centres around the amount of funding that is actually being directed to lower-income households across the province. As stated before, the conventional attitude for an equalization transfer is to provide more financial assistance to relatively poor municipalities so that those residents will not have to pay a higher level of tax for a standard level of service. But if one defines a low-income household as having an income of $30,000 or less, less than 30 per cent of the total REG funding is actually being delivered to such households. Because the transfer actually lowers the total amount that the municipality has to raise, all property taxes in the municipality are lowered. As a result, the remaining 70 per cent is spilled over to the commercial and industrial sectors as well as to the rich taxpayers of the community.

4.5 Proposals for Transfer Reform

The realignment of roles and responsibilities proposed in chapters two and three would necessitate complementary changes in the conditional and unconditional transfer systems. These changes could solve many of the difficulties with the transfer systems outlined above.

As noted in Chapter Three, some functions which are now shared between the Province and municipalities, and carry conditional transfers as a result, would be made municipal responsibilities and no transfers would apply. Similarly, some shared responsibilities would become provincial responsibilities and, again, transfers would not apply. Where municipalities act as local delivery agents for

provincial responsibilities, a fee for service arrangement or direct pass-through of transfers to individuals might replace conditional transfers. Conditional transfers would continue only in situations where municipalities are co-providers of service with the Province.

Conditional Transfers

Recently, two major reviews of the conditional transfer payment system have been undertaken. One was conducted by an interministerial committee chaired by the Ministry of Municipal Affairs, the other by the Association of Municipalities of Ontario. In defining its objectives and developing principles to guide the development of conditional transfers, the Committee drew upon both these studies.

Committee Recommendation

6. **All conditional transfer programs should be reconsidered in light of the realignment of responsibilities recommended in this report and the resulting transfer programs should be based on the following objectives and principles:**

a. **Conditional transfer programs should be based upon clear jurisdictional responsibilities and interests.**

b. **The conditional transfer system should promote accountability.**

Conditional transfers blur accountability since one level of government raises the revenues through taxation and another level spends the funds. Fiscal accountability is usually promoted when the level of government that spends the money also raises the revenues. Nevertheless, the transfer system can be made more politically accountable if it:

- clearly delineates municipal and provincial responsibilities so that municipal authority over programs corresponds to the level of financial commitment;

- can be understood by the public, so they can hold their representatives to account;

- has clearly stated objectives so the public can determine if the program is doing what it was designed to do.

c. **Resource equalization should not take place through the conditional transfer system.**

d. **In areas of shared responsibility, a uniform transfer rate should be applied to the actual costs incurred by municipalities in providing services to mutually agreed upon standards.**
Where extreme and legitimate differences in costs exist, there may be discretion in deviating from the uniform transfer rate.

Unconditional Transfers

The Committee considered alternative ways to address equalization of fiscal need, more specifically through enhanced property tax credits (see Chapter Five) and municipal restructuring.

Increased utilization of property tax credits rather than transfers to municipalities would provide assistance directly to home owners most in need. It would also reduce spillovers to commercial and industrial sectors. A transfer to a municipality benefits all property taxpayers, including the commercial and industrial sectors. However, a comprehensive property tax credit would include consideration of school taxes not just municipal taxes.

Municipal restructuring would reduce the requirement for equalizing fiscal need by broadening the municipal tax base and possibly achieving economies of scale in the provision of municipal services. In some cases municipal restructuring is not a viable option for addressing the equalization of fiscal need. However, even where restructuring is viable, it would have to overcome municipal concerns regarding the potential loss of municipal autonomy and identity. As well, gains achieved through restructuring are likely to be less visible than any losses in provincial transfers.

The Committee also recognized the problems with using equalized assessment as a measure of a municipality's ability to pay for services. It therefore considered different measures of fiscal capacity that might be used for an equalization transfer.

The use of average residential tax levels and average household income might be examined as options to replace equalized assessment as these would provide a more acceptable measure of a resident's ability to pay. However, there appear to be problems with securing income data on a municipality by municipality basis. Moreover, transfers based on data related to income fluctuations might also result in fluctuations in transfer levels (e.g. during times of low unemployment). In addition, this transfer would not take into account the municipal commercial and industrial tax base.

Another alternative to equalized assessment is the use of both income and the tax yield from commercial and industrial properties. This would overcome one of the problems cited above by considering the commercial and industrial tax base.

A disadvantage to this approach is that it would require continued reliance on market value assessment to make inter-municipal comparisons of the commercial and industrial tax base.

Committee Recommendations

7. **The concept of resource equalization should be carried out through unconditional transfers, an enhanced property tax credit and tax deferrals.**

8. **The unconditional transfer system should consist of:**

a. **a general transfer to municipalities provided uniformly on a relatively simple basis (i.e. tax levies); and**

b. **a transfer of last resort to assist poor municipalities. This transfer would be received on a formula-driven basis rather than as a continuing entitlement (this is expected to account for roughly 20 per cent of the total unconditional transfer). Its distribution mechanism is to be determined by the Province in consultation with municipalities.**

This form of unconditional transfer system was developed to complement the realignment of roles and responsibilities advocated by the Committee. The realignment of roles and responsibilities, combined with a user pay philosophy by municipalities (see Chapter Six) and an enhanced property tax credit should largely remove the need for resource equalization. Therefore, a simple uniform transfer would be an appropriate way to address any shortfall between municipal expenditure requirements and fiscal capacity. However, the Committee also recognized that any system requires a safety net. Although municipalities would be generally strengthened by the recommendations in this

report, it is likely that some municipalities would still require assistance in order to provide a base level of municipal services. The transfer of last resort would address the needs of those municipalities.

Municipal Data Base

In reviewing the Ministry's various transfer programs it became evident to the Committee that there is a relatively well-developed and defined data base to monitor municipal finances. However, one significant shortcoming which has particularly serious implications for the effective allocation of the REG, is the ability to monitor the general economic conditions of each municipality.

Economic conditions impact on both a municipality's ability to raise revenues and the demand for its services. As a result, the provision of a meaningful and well-targeted transfer of last resort, would require the development of a data base which also monitors municipal economic conditions, particularly employment and income-related information.

Committee Recommendation

9. **The Ministry of Municipal Affairs should expand its municipal data base to include general economic indicators, particularly employment and income-related data, by municipality.**

Certainty in the Transfer System

The Committee recognizes the difficulties faced by municipalities in financial planning when transfer levels fluctuate significantly from year to year. As emphasized

earlier in this report, the provincial-municipal financial relationship must have a consultative process to address changes both in responsibilities and funding.

Committee Recommendations

10. The transfer payment system within the new provincial-municipal financial relationship should promote stability and predictability. Changes in the transfer system should be made only after discussions between the Province and its municipalities.

11. The details of all transfer payments should be announced by the 15th of November of the year prior to the transfer payment year.

4.6 Revenue Sharing

It is expected that a realignment of responsibilities based on the general directions recommended by the Committee would do much to improve the balance between the amount of revenue municipalities can be reasonably expected to raise from their own sources and the level of expenditures reasonably required in the fulfilment of municipal responsibilities. A revenue-sharing mechanism is an appropriate option to consider in addressing any shortfall between aggregate municipal expenditure requirements and fiscal capacity. Four provinces and Yukon currently have such arrangements.

The establishment of a revenue-sharing arrangement would create several benefits. First, revenue sharing brings stability and certainty to the unconditional transfer system. When the overall transfer is directly tied to the

growth in overall provincial revenues or in specific revenue sources, it becomes less vulnerable to other influences. With a revenue-sharing formula it is unlikely that Ontario's overall unconditional transfer allocation in 1989 would have been frozen at its 1988 level. It is also easier for municipalities to determine their approximate future allocations and conduct financial planning.

Secondly, revenue sharing gives municipalities indirect access to revenues such as income tax and sales tax which traditionally have grown more quickly than the property tax. The 1974 Ontario budget noted that "To meet the problem of a growing financial gap, local governments require access to a fast-growing revenue stream such as the personal income tax."[16] Although it is expected that the realignment of responsibilities recommended in this report would largely remove the fiscal gap, there may be municipal expenditure responsibilities which will grow more quickly than can be reasonably accommodated by traditional municipal own source revenues. An unconditional transfer tied to a faster growing revenue source could assist municipalities to meet the demands of fast-growing expenditure areas without unduly burdening the property tax base.

Direct dependence by municipalities on provincial revenues would also be beneficial in that it would more closely connect the fates of the two levels of government. The unconditional transfer system would become more responsive to economic conditions. This may make the transfer allocation less stable than it presently is during economic downturns. In years when provincial revenues decrease under a revenue-sharing scheme, municipalities may actually face a

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[16] Honourable John White, 1974 Ontario Budget, 9 April 1974, p. B-15.

reduction in unconditional transfers. Such impacts could be dampened by averaging revenues over a number of years or by creating a fund similar to British Columbia's Revenue Sharing Stabilization Account, which was established to level out the flow of funds to and from the revenue sharing fund over periods of varying economic activity.

Other Jurisdictions

As noted above, there are several jurisdictions in Canada where revenue sharing is currently in practice. In Yukon the aggregate amount available to local governments for unconditional operating transfers is increased annually by the rate of increase in the territorial government's expenditures. The basic operating transfer is designed to bring the financial resources of all local governments up to a certain base level.

In Nova Scotia unconditional transfers to municipalities from the Province are provided by basic operating transfers, revenue guarantees, capital transfers and transfers in lieu of taxes. The basic operating transfer allocation is increased annually to reflect growth in provincial revenues. To determine transfers to individual municipalities the Province uses a formula that takes into account municipal expenditure needs by size and type of municipality, as well as each municipal unit's ability to pay. Since 1980 the capital transfer program has consisted of up-front capital money distributed in proportion to municipal expenditure needs. This transfer program is also indexed to the increase in provincial revenues. The capital transfer system is largely unconditional; to be eligible to receive the transfers municipalities do not have to spend on certain services, although the transfer must be spent on a capital purpose.

Manitoba's Provincial-Municipal Tax Sharing Act provides for tax sharing whereby municipalities receive the revenues yielded by 2 percentage points of personal income tax and 1 per cent of corporate income tax. A basic transfer is made to municipalities on a per capita basis. It is supplemented by an urban services payment made to cities, towns, villages and urban local government districts.

Under Saskatchewan's provincial-municipal revenue-sharing programs, the Province transfers part of its revenue from three sources -- personal income tax, corporate income tax and general sales tax -- to urban, rural and northern municipalities. The municipal share of these revenues is divided between municipalities according to formulas which differ, depending on whether the municipality is urban, rural or northern.

British Columbia's Revenue Sharing Act provides municipalities and regional districts with defined portions of provincial revenue. The program has been in operation for thirteen years. The revenues shared include 1 per cent of personal income tax payable; 1 per cent of corporate taxable income; and 6 per cent of the taxes and fees on renewable and non-renewable resources. Grants are payable from this fund for both general and specific purposes and the distribution is determined by regulation. In 1985 a transfer stabilization account was established to level out the flow of funds to and from the revenue-sharing fund over periods of varying economic activity.

Committee Recommendations

12. **To address the shortfall between aggregate municipal expenditures and municipal fiscal capacity, the Province**

should develop a revenue-sharing formula to determine the allocation to unconditional transfers.

13. The revenue-sharing formula should assign to the unconditional transfer allocation the necessary percentage points of a representative bundle of provincial tax revenues on the basis of a three-year rolling average.

CHAPTER FIVE

PROPERTY TAXATION

5.1 Background

The property tax is the second largest source of tax revenue in Ontario after the personal income tax. In 1988 local governments collected approximately $9.0 billion in property-based taxes. This included $4.2 billion for municipal purposes and $4.8 billion for school purposes.

The property tax is by far the single most important source of revenue for municipalities. In 1988, province-wide, it accounted for 53.8 per cent of own-source revenues or 39.1 per cent of total revenues, including transfers. However, the importance of property taxes relative to other sources of revenue varies among municipalities, depending upon the level of transfers a municipality receives from the Province and the type of services it provides. For example, property taxation accounted for about 43 per cent of total revenues for county cities and 30 per cent for districts.

The property tax is the only major tax that is primarily used by local governments. This tax fosters accountability in that the level of government that spends the money is also forced to raise the funds through taxation.

Even though the property tax plays a significant role in municipal finance, it has been the subject of much criticism. Suggestions that the property tax is regressive, that municipal expenditures grow much more quickly than assessments, and that often it is not related to the benefits received by property (for example, in situations where the property tax is used to fund General Welfare

Assistance) are commonplace. Other inequities related to the administration of the tax have been identified.

By contrast, the Smith Commission noted:

> that the property tax is peculiarly well suited to municipal use is attested to both by history and by common practice in most of the industrialized nations of the west. The relative stability and immobility of the tax base, the simplicity of collection procedures, and the ease with which rate changes can be legislated to accommodate changing spending obligations: these are the manifest qualities which have made the property tax the basic local levy.[17]

A decade later, the Blair report stressed that:

> the property tax is a tax on wealth in the form of real property and as such is a component in a fiscal system which seeks to tax, in other major aspects, the ability to earn income and the ability to consume. The very essence of the tax base, real property, makes it capable of responding to local needs without thereby imposing financial consequences on those who live in other locales and have other needs. Furthermore, ... only the property tax, by way of a change in the mill rate, is capable of isolating the effect of spending decisions.[18]

A number of recent studies have also challenged the conventional wisdom that the property tax is regressive. For a detailed discussion, see Appendix 4.

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17 Ontario, The Ontario Committee on Taxation, <u>Report</u> (Toronto; Queen's Printer, 1969), vol. 1, p.46.

18 Ontario, <u>The Report of the Commission on the Reform of Property Taxation in Ontario</u> (Toronto: Queen's, Printer, 1977), p.4.

Given that the property tax may not be as regressive as has been generally thought, the Committee believes that it should properly be considered the main source of municipal revenue when it is combined with full market value assessment, as well as a sensitive property tax credit, and it is used to fund appropriate municipal services.

5.2 <u>The Property Tax Base</u>

<u>The Present Assessment System</u>

Municipalities levy taxes on the assessed value of real property. Lower-tier municipalities actually collect these taxes which they share with upper tiers, special purpose bodies and school boards. Assessment is also used for determining entitlements to various provincial transfer programs.

In Ontario the assessed value placed on a given property can vary significantly depending upon when the municipality was reassessed and the type of reassessment that was conducted. For instance, in a municipality which has not undergone a reassessment in recent history (since 1969 when the Province assumed responsibility for assessing properties), the assessed values placed on each property approximates the outdated market values within that community. These assessments bear no relationship to current market values. A hypothetical example of this type of assessment and its distribution of taxes is shown in table 5-1.

Currently, when a municipality chooses to undergo a reassessment its council has two basic programs to choose from: section 63 or section 70 of the Assessment Act. Under section 63, properties within each property class (see

table 5-2) are assessed at their market value in a given base year, which varies depending on the year the reassessment occurs. The Ministry of Revenue uses the most practical year available at the time. The base years are four years apart (1984, 1988, etc.) and are the same for all municipalities.

Once the properties have been assessed at their market value all properties within a class (for example, single residential) are then discounted by a class factor which reflects a percentage of market value. This percentage varies from one property class to another and its purpose is to preserve the same total tax take from each class of property that existed before the reassessment occurred. This restricts any shifts in tax burden to properties within each defined class.

If the reassessment was carried out on an upper tier basis there will be no shifts in tax burden between classes of assessment for the upper tier as a whole. However, the possibility exists for significant shifts in tax burdens within individual municipalities. In the extreme case, a municipality may see tax increases or decreases in all of its property classes. Table 5-2 shows how class tax burdens are maintained through the use of class factors.

Under section 70 of the Assessment Act, a council may choose full market value assessment. All properties are assessed at their full market value without the use of class factors. Again, the base year used to determine each property's market value varies depending on the year the reassessment occurs. Shifts between property classes occur with this type of reassessment, as there is no class factor to preserve the burden. As well, this type of assessment may

be done either on a local basis or an upper-tier-wide basis. Table 5-3 gives an example of potential class tax burdens when between class shifts are allowed to occur.

Table 5-1
Distribution of Municipal Tax Burden

Property Class	Local Assessment	Mill Rate	Taxes
	$000		$000
Single Residential	50,000	85.00	4,250
Multi-Residential	7,500	85.00	638
Farm	2,500	85.00	213
Commercial & professional	30,000	100.00	3,000
Industrial & manufacturing	10,000	100.00	1,000
Total	100,000		9,100

Table 5-2
Distribution of Municipal Tax Burden, Section 63

Property Class	Market Value	Class Factor	Local Assess.	Mill Rate	Taxes
	$000		$000		$000
Single Residential	1,000,000	0.05	50,000	85.00	4,250
Multi-Residential	37,500	0.20	7,500	85.00	638
Farm	25,000	0.10	2,500	85.00	213
Commercial & professional	120,000	0.25	30,000	100.00	3,000
Industrial & manufacturing	25,000	0.40	10,000	100.00	1,000
Total	1,207,000		100,000		9,100

Table 5-3
Distribution of Municipal Tax Burden, Section 70

Property Class	Market Value	Mill Rate	Taxes
	$000		$000
Single Residential	1,000,000	7.38	7,380
Multi-Residential	37,500	7.38	277
Farm	25,000	7.38	184
Commercial & professional	120,000	8.68	1,042
Industrial & manufacturing	25,000	8.68	217
Total	1,207,000		9,100

By its very nature, the traditional type of assessment base is not subject to update. The two reassessment programs offered by the Province under section 63 and section 70, allow for individual bases to be updated with the upper-tier-wide program mandating updates every four years.

Inequities in the Assessment System

In order that a tax be fair and equitable it is essential that the tax base be fair and equitable. The principle of equity suggests that similar properties should be treated in a similar fashion for tax purposes.

The types of differences that exist in the provincial assessment system may be summarized as follows:

- within-class differences;
- between-class differences; and
- differences among municipalities.

Within-class differences occur when similar properties within a municipality, say detached homes, have the same market value but different assessed values for taxation

purposes. This variance reflects the different times at which the properties were last assessed and their differing rates of appreciation since then. The result is that some homeowners pay different property taxes even though their properties have the same market value.

In the Ontario assessment system, between-class differences are apparent both explicitly and implicitly. Historically, residential properties have generally been assessed at a lower percentage of market value than commercial and industrial properties. At the same time, apartment buildings have usually been assessed at a higher percentage of market value than other classes of residential property. It is commonly thought that these differences in assessment practises create an inequity since properties with similar market values may pay significantly different taxes. In the Committee's view this is not necessarily true. Different property classes may place different demands for service on a municipality. Also, different property classes may represent differing abilities to pay for municipal services.

Differences in property class tax burdens among municipalities occur when the class factor applied to a class varies between municipalities within a county or region. As a result, the taxes on properties of similar value within a given class can vary significantly throughout upper tiers, even after local reassessments, because of differing assessment practices.

Because Ontario does not have a common market value assessment system, the Ministry of Revenue has developed equalization factors which try to bring all properties up to market value. Equalization factors translate the existing assessment into a common tax base for the purposes of

transfer distribution and the apportionment of upper-tier and school board funding burdens. However, when actual upper-tier-wide reassessments are done, it becomes evident that this is not an accurate approach.

Factors Discouraging a Move to a More Equitable Tax Base

The Ministry of Revenue has been attempting to redress inequities in the assessment base since 1970. However, progress has been slow, due to a number of political, special interest, municipal and fiscal pressures. Reassessment requests must come from municipal councils, many of which are reluctant to request reassessments because of the shifts in tax burden that will result.

Notwithstanding these difficulties, many upper-tier municipalities have requested that market value based reassessments be implemented. Using section 63, successful reassessments have been implemented in the regions of Haldimand-Norfolk, Sudbury and Waterloo, and the counties of Brant and Kent. In the district municipality of Muskoka, and Huron and Prince Edward counties section 70 has been used. Metro Toronto has recently adopted a reassessment package that would overcome differences in the assessment treatment of properties but would minimize the impact on adversely affected individuals by using both assessment and tax credits to gradually phase in changes.

Where upper-tier-wide reassessments have taken place under sections 63 or 70, updates are done every four years. Annual updates would provide a more accurate market value base and avoid the sharp shift in some tax burdens that accumulate over a four-year period. On the other hand, annual updates would cost substantially more and would not necessarily eliminate controversy over tax shifts. In

Quebec, where there are annual updates, the concern over shifts has been so great that municipalities now have the option of using a three year rolling average.

It is not necessary for all municipalities to have a common base year as long as there is a mechanism in place that puts them on the same base for the purpose of calculating provincial transfers. It is also impractical from an administrative point of view to have annual updates or even to have the whole province on the same base year. It is sufficient that within each upper tier a single base year is used and is reassessed every four years.

In addition, property owners and renters readily understand the concept of market value. The Committee believes the use of the section 63 reassessment program, where individual properties are brought up to their market values then reduced by some common class factor, is a confusing and misleading way to maintain current property tax burdens by class of property.

Committee Recommendation

The Committee's recommendations in this chapter should be viewed as a package. The recommendations are inter-related and are made on the assumption that they would be implemented together.

14. **Full market value assessment across the Province should be implemented through the use of upper-tier-wide reassessments. These reassessments should be updated every four years. It will also be necessary to develop a mechanism to put all municipalities on the same base for transfer purposes.**

5.3 Property Tax Rates

Legislation in Ontario requires that there be two municipal mill rates, one for commercial and industrial property and one for other property classes. The mill rate for other property classes (residential, farm and vacant property) must be 85 per cent of that for commercial and industrial property classes. As noted in the previous section, tax burdens also differ when property classes are assessed using class factors.

At least two other Canadian jurisdictions have experience with variable mill rates in the context of market value assessment. In British Columbia each municipality can tax each prescribed property class (six classes) at a rate of its own choosing. In Alberta mill rates may be differentiated between residential, non-residential and farm property. Residential properties may be classified into more than one category. If differential rates are used, the residential rate(s) must be the lowest but cannot be less than 75 per cent of the highest non-residential rate.

Amending the legislation to permit variable mill rates among property classes is a necessary adjunct to the success of section 70 market value reassessment in order to control the shifts in the tax burden that would take place between property classes. Variable mill rates could be used to facilitate the phase in of full market value reassessment. Further, variable mill rates would allow municipal councils to determine the portion of the tax levy to be borne by each property class. Over the last twenty years, the market values of different classes of properties have grown at different rates. Under a section 70 reassessment without variable mill rates, shifts in class tax burdens would occur

although there may not necessarily be a corresponding change in the taxpayer's ability to pay for municipal services. As noted by the Blair Commission:

> To conclude that a situation, static in all respects except for the rate of escalation in market value, should give rise to a shift in burden between these classes of property, seems to us unsupportable.[19]

As table 5-4 shows, with full market value reassessments and variable mill rates, the variable mill rate required to maintain property class tax burdens is very different than the mill rate required under a section 70 reassessment.

Table 5-4
Comparison of Mill Rates with Full Market Value Assessment
Existing Section 70 vs Current Class Burdens

	Existing Sec.70		Current Tax Burdens	
Property Class	Mill Rate	Taxes	Mill Rate	Taxes
		$000		$000
Single residential	7.38	7,380	4.25	4,250
Multi-residential	7.38	277	17.00	638
Farm	7.38	184	8.50	213
Commercial & professional	8.68	1,042	25.00	3,000
Industrial & manufacturing	8.68	217	40.00	1,000
Total		9,100		9,100

It is the view of the Committee that both lower and upper-tier councils should be given the explicit tax policy authority to determine relative class mill rates in accordance with their views on differing costs of services provided, differing abilities to pay and other policy

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19 The Commission on the Reform of Property Taxation in Ontario, Report (Toronto: Queen's Printer, 1977), p.22.

considerations. The differing tax burdens among classes (if council chose to continue them) coupled with full market value assessment would clearly be more visible and understandable to ratepayers than the present system of assessing classes of property at varying percentages of market value and imposing common mill rates. Variable mill rates are a means of giving municipalities a measure of tax policy flexibility over their largest and most important source of revenue. Councils would necessarily be more accountable for their tax rate decisions.

Arguments against giving councils the flexibility to vary mill rates among property classes include concerns that variable mill rates would allow municipalities to engage in tax competition, and might be administratively cumbersome depending on the degree of flexibility given to the three levels of local government with regard to making their own mill rate choices. The range of variability could be addressed by legislating limits to differentials. However, this, in itself, may be controversial given the significant variances in existing tax practices among property classes.

Committee Recommendation

15. **Variable mill rates should be introduced on a permanent basis as a tax policy measure available to councils.**

5.4 <u>Business Tax</u>

The business tax was introduced in 1904 as a tax on the business occupant rather than the owner of the property. Business assessment is determined by multiplying the realty value by a business percentage rate which varies according

to the type of business (currently from 25 to 75 per cent). This tax is a substantive local municipal revenue source, representing $1.1 billion of the total $9.0 billion raised in property taxes or approximately 12 per cent of the property tax base in 1988.

<u>Concerns with the Business Tax</u>

The Minister of Revenue established the Business Tax Review Committee with a mandate to evaluate the Province's business tax system in 1988. Several organizations made presentations to that committee which are currently being reviewed.

The problems encountered with the business tax system are:

- assessment difficulties in determining an appropriate business class;
- difficulties with respect to tax collection;
- administrative costs;
- changes in tenancy;
- vacant commercial property subject to lower residential mill rate;
- poor client awareness of tax responsibility;
- unchanged statutory business classes.

Municipalities are concerned with the erosion of the tax through appeals, write-off of uncollectible amounts and the instability of revenues during recessionary periods. Businesses are concerned with the arbitrary nature of the five classes of business percentages and the inequitable distribution of the tax burden that results from their use. For example, an appeal to cabinet by distillers resulted in a reduction of their 140 per cent rate to 75 per cent

commencing in 1989. The 75 per cent rate is the rate currently applied to brewers.

While the system of graded rates was initially established to reflect the value of personal property used in a business enterprise, it is apparent that this relationship has not been maintained. Over the years, with the evolution of the business community and the need to maintain tax flows, the original intent has been forgotten and the tax has tended to become regarded as an adjunct of the property tax responsibility of commercial and industrial properties. Even with the recent compression in rates, it is difficult to defend the appropriateness of a 75 per cent rate for a wholesaler and a 30 per cent rate for a retailer.

An Alternative Business Tax Approach

In view of the significance of the business tax as a revenue source, it is difficult to advocate its complete elimination. To abolish this tax would alter the present tax distribution ratios of 58 per cent residential and 42 non-residential to 68 per cent residential and 32 per cent non-residential.

In considering the various options for business tax reform, the Committee found that the recommendations by the Association of Municipal Tax Collectors of Ontario appear to be both comprehensive in addressing the present concerns and practical from the standpoint of minimizing tax responsibility dislocation. The Association proposal suggests that the present system of business assessment and taxation should be abolished; to compensate for this revenue loss the current commercial and residential mill rate differential of 15 per cent should escalate to about 40 per cent. While this dependency on realty taxes would create

tax shift impacts between different classes of commercial/industrial properties, and between the residential and non-residential sectors within individual municipalities, it would maintain the existing tax responsibility of the residential and non-residential sectors on a province-wide basis.

As payments in lieu of property taxes do not presently include a business tax component, the payment of a higher commercial and industrial mill rate by governments would marginally reduce the size of the mill rate differential that would be required if the business tax system were abolished.

Although realty and business taxes at the moment are two distinct taxes, in many instances, such as an owner/occupied situation or a tenancy lease that stipulates the lessee is responsible for all relevant property taxes, these two forms of taxation are viewed as a total levy upon business, based on the occupancy of real estate.

In the event that a variable mill rate policy is adopted, councils could further expand their own mill rate differentials to compensate for the lost business tax revenue.

Committee Recommendation

16. **The present business assessment and business tax structure should be eliminated.**

5.5 Property Tax Relief Mechanisms

As noted earlier, the property tax is appropriately the major revenue source for municipalities. It is also the major own-source of revenue for school boards. Whether or not the tax is regressive, it does present cash-flow difficulties for some. Therefore, in practical terms it is necessary to have property tax relief mechanisms since without these mechanisms there would be individuals who would find it difficult to fulfil their tax obligations.

Property Tax Credits

Presently, the Province has two assistance programs to alleviate the burden of property tax: the Ontario tax credit program and the property tax grants to seniors.

The Ontario property tax credit is a refundable tax credit for homeowners and renters administered through the provincial personal income tax system. It is calculated as the lesser of $230 or occupancy cost (property taxes in the case of homeowners, and 20 per cent of rent in the case of renter), plus 10 per cent of occupancy cost less 2 per cent of taxable income. The maximum credit available is $500. The senior citizens property tax grants are the lesser of $600 and property taxes paid (20 per cent of rent for renters).

In addition to the provincial property tax credit against income, some municipalities have introduced local tax credits under the Municipal Elderly Residents' Assistance Act. Under this act, municipalities are permitted to enact by-laws to provide assistance by way of a grant or credit to owners of residential real property. The characteristics of these taxpayers include: that they are elderly (over 65 or

some other specified age); that the property be owner-occupied and for no less than one year (or some other specified amount up to five years); and that the credit only be permitted on one residential property in any year. The Act also permits the municipality to restrict the credit to only those taxpayers receiving a guaranteed income supplement. The credits are funded out of general municipal revenues; in other words, they are paid for by all taxpayers in the municipality (in all classes of property).

However, the amount of tax relief provided under the Municipal Elderly Residents' Assistance Act has been very small. For example, in 1985, in Metro Toronto, $573,000 or 0.02 per cent of total tax collections were relieved in this fashion. In other municipalities in Ontario, the taxes relieved under this Act have not exceeded 0.06 per cent of total tax collections.

Although these programs are quite modest, they do attempt to provide assistance to those in need, where need is measured by the taxpayer's use of various other government assistance programs. These programs attempt to help the elderly who may have cash-flow problems to stay in their homes. However, the assumption that all seniors have cash-flow difficulties in meeting their property tax obligations may no longer be valid. Many of today's seniors receive substantial investment and pension incomes. As a result, the Committee believes that the criteria for a property tax credit should be based on need, not age.

<u>Property Tax Deferrals</u>

Another property tax relief mechanism is tax deferral. A low-income person whose home has grown in value over time may have sufficient wealth to pay the property taxes but be

unable to convert the wealth into cash without selling the home. Tax deferral schemes are designed to address cash-flow problems of people who have accumulated wealth without actually transferring cash to these individuals.

A tax deferral scheme generally allows a taxpayer in some qualifying group to defer taxes until the property is sold. The deferral can be funded either by participating municipalities or the Province. If it is considered desirable to eliminate any element of subsidy, interest at the funding entity's borrowing rate is added to the deferred taxes. The amount of the taxes and any associated interest is secured by a lien against the property. In terms of administration, it is only possible to offer these schemes on a large scale to the elderly.

Such a deferral scheme is in operation in British Columbia for those over 60 years of age, widowed or handicapped. This scheme is financed by the provincial government. The only limitation is that the homeowner must maintain a minimum equity base of 25 per cent of the assessed value of the property for taxation purposes. The deferment rate of interest is determined by the Province semi-annually, and it is no greater than 2 percentage points below the prime rate of the principal banker to the Province.

Committee Recommendations

17. **Low-income individuals should be assisted through an enriched and more sensitive tax credit system that is based solely on need.**

18. **The Province should develop and implement a province-wide property tax deferral scheme for the elderly.**

CHAPTER SIX

ALTERNATIVE REVENUE SOURCES FOR MUNICIPALITIES

6.1 Background

Within the context of enhancing the municipal sector's ability to generate its own sources of revenue, the Committee reviewed various options, including extensions of current practice and opening up new fields of taxation to municipalities. Several potential new sources of revenue were examined, but their inclusion here should not be taken as an endorsement by the Committee, unless so noted.

The revenue sources available to each level of government should be generally defined by the roles and responsibilities being fulfilled by each level of government. For example, given that income redistribution and stabilization is most appropriately a wholly provincial responsibility, the Province should have access to income-based revenue sources and municipalities should not. It also follows that if income redistribution is not an appropriate municipal role, they can more closely follow a user-pay philosophy. Whenever possible municipalities should have the flexibility to charge user fees for the services that fall under their jurisdiction, such as garbage pick-up and arenas.

Revenue sources should also reinforce autonomy and enhance the accountability of each level of government to its taxpayers. This requires that each level of government have fields of taxation which are clearly defined and free of intrusion from the other level of government. If each level of government has its own clear fields of taxation and a set of well defined roles and responsibilities, it will be

possible for the general public to hold each level of government accountable for its decisions. For example, since the property tax is the largest municipal own-source of revenue, municipal accountability would be impaired by the imposition of a real property tax by the Province. Where possible, the general accepted principles of public finance regarding equity and administrative ease[20] should also apply. The Committee notes, however, that municipalities are constrained by a limited tax base and there may be a need to broaden their powers of taxation in keeping with these criteria.

Committee Recommendation

19. Each level of government should have clear fields of taxation in keeping with its roles and responsibilities.

New Revenue Sources

6.2 Income Tax

As municipal officials have sought access to new tax bases, the concept of a municipal income tax has generated considerable interest. The most discussed form of an income tax for municipalities is "piggy-backing" onto the tax base of the Province. This system is the norm for countries that levy a local income tax. The disadvantage to this approach is that if the income tax base is reduced, as has recently occurred in some countries, local revenues are also cut.

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[20] For a discussion of these criteria, see H. Kitchen, "Alternative Methods of Taxation and Assessment," A Report Prepared for the Task Force on Reassessment in Metropolitan Toronto (Toronto, 1989), pp.16-22.

Even so, this concept may be worth exploring as it would tie the financial fates of the two levels of government more closely together and thereby encourage greater co-operation between them. However, if income redistribution is not an appropriate municipal responsibility then the suitability of a municipal income tax must be raised. It is also necessary to examine the effects that a municipal income tax would have on municipal accountability. It is not clear that it would be possible to differentiate between provincial and municipal income tax revenues in the minds of taxpayers, thus undermining the principle of accountability. There may also be practical problems in allocating a municipal income tax given that some areas such as the Greater Toronto Area generate a larger proportion of income taxes than their percentage of households would suggest.

Committee Recommendation

20. The Committee does not endorse the use of a municipal income tax.

6.3 Payroll Tax

A payroll tax is usually levied at the place of work and in some cases differential rates are applied to residents and non-residents of the municipality. In some jurisdictions, employees pay the tax on the basis of employment income; in others, the tax is assessed on employers. In the case of payment by employers it is argued that businesses should pay towards the municipal services such as transportation, water and sewage, that are provided to their employees at their place of employment. Where employees pay the tax, it is

argued that non-residents should contribute to the financing of municipal services in the municipality where they work.

However, it is the Committee's view that the payroll tax is a form of income or corporate tax and as such is not a tax field that municipalities should have access to for the reasons previously discussed.

Committee Recommendation

21. The Committee does not endorse the use of a municipal payroll tax.

6.4 Sales Tax

A 1 percentage point increase in the retail sales tax would result in approximately $1 billion in increased revenue and a decrease of 1 percentage point would decrease revenues by approximately the same amount. These are yields at the margin and represent the yields or losses for changes of more than 1 percentage point. This estimate does not reflect the goods and services tax (GST); it is expected that retail sales will decline somewhat due to the implementation of the GST.[21]

The same distributional questions would arise in the use of a municipal sales tax as noted for a municipal income tax. Such an arrangement would also have negative effects on both provincial and municipal accountability to the public. It is not clear that it would be possible to differentiate between provincial and municipal sales tax revenues in the

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[21] Ministry of Treasury and Economics, Economic Outlook and Fiscal Review (Ontario, 1989), p.57.

minds of taxpayers. This difficulty would likely be compounded with the federal implementation of the GST.

Committee Recommendation

22. **The Committee does not endorse the use of a municipal sales tax.**

6.5 Poll Tax

The poll tax, sometimes called a head tax, is a tax of a specific dollar value that is applied to each individual, or in some cases each adult individual. It bears no direct relationship to property values nor is it based on a taxpayer's ability to pay (either wealth-based, consumption-based or income-based). The local tax base for each municipality is directly dependent on the number of residents of the community.

While poll taxes are currently authorized (1989) for use in Newfoundland and Saskatchewan, they are only employed and to a very limited extent in Newfoundland. Due to the obviously regressive nature of the tax, it is not likely to be seriously considered as an important revenue source, now or in the future. Significant problems with collection are occurring in Great Britain as ratepayers are being encouraged to evade the tax by local politicians.

Committee Recommendation

23. **The Committee does not endorse the use of a municipal poll tax.**

6.6 Commercial Concentration Tax

Effective January 1, 1990, the Province imposed an annual tax on large commercial structures and commercial parking lots and garages within the Greater Toronto Area (GTA). Commercial structures are taxed at the rate of $1.00 per square foot for each square foot in excess of 200,000 square feet in area. This implements a proposal contained in the provincial budget of 17 May, 1989.

In the 1989 budget statement, the government also committed substantial funding ($1.2 billion over five years) for transportation projects in the GTA. The rationale for applying the Commercial Concentration Tax to owners of larger commercial properties is that they are significant beneficiaries of public investment in transportation infrastructure and they create the need for these improvements by adding to traffic congestion in the GTA.

However, the Province has a policy of not earmarking revenues for specific purposes. As result, regardless of the appropriateness or inappropriateness of the tax, there is no assurance that the funds raised by the Commercial Concentration Tax will be used to improve the transportation infrastructure in the Greater Toronto Area. This is not consistent with a beneficiary pay concept.

More importantly, the Province is levying a tax on real property - the major source of revenue for municipal government. This intrusion into traditional municipal taxing powers runs counter to initiatives to clarify the provincial-municipal financial relationship. From an accountability standpoint, it is essential that each level of government have relatively clear fields of taxation so

that the public can compare the revenues raised to the services provided by each level of government.

Committee Recommendation

24. **The Commercial Concentration Tax should be turned over to municipalities.**

6.7 Environmental Taxation

Environmental taxes have a unique advantage over other forms of taxation in that they are not seen as having negative consequences for the economy in the same manner that other taxes (e.g. income taxes) are. These taxes can also be better targeted than many present regulations aimed at restricting pollution. However, given the level of spillovers and the predominantly provincial responsibility for pollution control, the scope for the application of these taxes by municipalities would likely be limited.

Committee Recommendation

25. **The Committee recognizes that taxation may be useful in reducing environmental degradation. Where an appropriate local objective can be achieved, municipalities should be given the authority to impose appropriate environmental taxes.**

6.8 Hotel Tax

A hotel and motel occupancy tax could be imposed either locally at municipal discretion or provincially and

redistributed to the municipal sector. These hotel occupancy taxes are very popular in the United States but have limited use in Canada. Metropolitan Toronto raised the possibility of such a tax in its report, The Crumbling Financial Partnership.[22] Although hotels and motels pay property taxes, it can be argued that these taxes are insufficient to cover the cost of municipal services used by the tourists and business people who occupy the rooms. On the other hand, tourism and business travel are important sources of income and employment for individual municipalities, as well as for the province as a whole. If service costs are covered through property taxes and business taxes paid by the hotel or motel owner, then an occupancy tax may be viewed as an undue discouragement to the hospitality business.

Committee Recommendation

26. Municipalities should be given the authority to impose a hotel tax at the discretion of council.

Extension of Existing Revenue Sources

A review of some of the existing sources of revenue available to municipalities indicates some deficiencies or limitations in their ability to contribute to municipal finances. Some of the difficulties are historical, such as the limits placed on licence fees; others reflect the lack of flexibility in the existing statutory framework. Any

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[22] Metropolitan Toronto, The Crumbling Financial Partnership: Metropolitan Toronto's Response to Provincial Retrenchment (Toronto: Management Services Department, 1989), p.47.

extension of municipal fiscal capacity in these fields should be consistent with the criteria noted earlier in this chapter.

6.9 Special Rates

A special rate is generally a charge or levy on an existing property to finance additional capital facilities or improve existing ones. It is designed to allocate the costs of the improvement to the recipient of the benefit, for instance, when a bus route serves the interests of a particular neighbourhood. The rate imposed on benefiting properties in a defined area is usually based on frontage, area of the lot, or assessed value of the property. It is not widely used in terms of total funds raised for capital purposes.

Special rates are not widely used at the present time primarily for two reasons. First, only lower-tier municipalities have the authority to levy special rates. It is likely that upper tiers would see special rates as an effective tool for funding services and use them more extensively than lower tiers.

Secondly, the legislative framework is relatively narrow in terms of the uses for which special rates can be levied and the basis for collecting them. Special rates are currently limited to funding the capital costs of the provision or extension of any public utility undertaking (such as water and sewer system, electrical power, street lighting, and transportation system), or the operating deficit of a public bus service for a defined area. Special rates, when used, must be imposed on all rateable property in the defined area. This does not allow the municipality to isolate the

beneficiaries if some types of ratepayers benefit significantly more than others.

In contrast, special charges, which can only be used for water and sewer capital expenditures, allow local municipalities to define the class or classes of buildings responsible for the need to expand service. The owners of those buildings are then levied for part or all of the cost of the additional capacity required.

In a more flexible form, special rates are a potentially significant source of municipal revenue for the provision of both hard and soft services. They would allow municipalities to more closely follow a user-pay philosophy when it is not possible to charge user fees but the provision of a service clearly benefits a defined area or class of building.

Committee Recommendations

27. **Upper-tier municipalities should be given the authority to impose special rates.**

28. **Increased flexibility in the services for which special rates may be charged and the basis on which they may be collected should be given to municipalities.**

6.10 Taxation of Utilities

Present Practice

Section 161 of the Municipal Act provides that telephone and telegraph companies operating in Ontario pay a tax to the municipal sector of 5 per cent of their gross receipts in

lieu of an assessment of poles and wire mileage. The calculation of this tax is based on an agreement made in the mid-1970s. Other utilities, including natural gas and cable television, do not pay for use of public rights-of-way.

The introduction of cellular telephones and alternative suppliers of rental equipment has created a problem in respect to the division of revenues among municipalities. Currently, the tax is based on a count of telephones leased from Bell Canada and thirty independent telephone companies. This favours smaller municipalities because their residents have tended to lease telephones, whereas people in more urban municipalities are more inclined to purchase equipment and to own cellular phones. This has meant that an increasing percentage share of growing telephone company revenues are accruing to the more rural municipalities. In addition, the rapid changes in communications in recent years, such as fax machines and satellites have dramatically changed the environment in which this tax was originally designed to operate.

Potential Changes and Their Implications

Municipalities and municipal associations have recently stated that cable television operators should also be taxed on the basis of gross receipts. This approach is taken in Quebec, where the tax rate varies according to the receipts of the cable television company: 2 per cent if gross receipts are under $5 million, and an additional 3 per cent on revenues exceeding $5 million. Telecommunications companies pay a tax of 1 per cent in place of general property and business tax in British Columbia. In other provinces telecommunication systems are largely owned by the province itself and grants in lieu of taxation are made to municipalities.

Approximately $20 million could be generated for municipalities in Ontario if a tax of 5 per cent on gross receipts were to be applied to cable television operations. While there may be some tax shifting to cable operators because this industry and its prices are regulated, for the most part this tax would be passed directly on to consumers.

The definition of a telecommunications company should be re-examined as well as the tax base and the tax rate itself. The revenue base could be broadened by including telephone company receipts from data and video transmission as well as taxing cable television and other telephone companies such as Unitel within this framework.

Some other provinces, including Quebec and British Columbia, apply a similar concept to natural gas pipelines. Again, because of price regulation, the tax would likely be passed on directly to consumers for the most part. Because natural gas is a greater necessity than cable, the extent of pass-through would be greater.

Committee Recommendations

29. **A new telecommunications tax including the taxation of cable TV companies should be devised to solve the growing problems with the existing tax system and broaden the revenue base.**

30. **The idea of using the gross receipts concept for other public utilities such as natural gas companies should be examined.**

6.11 Payments in Lieu of Taxes

Present Practice

Generally, on properties owned and occupied for provincial purposes the Province makes property tax payments to the local municipalities based on the property's assigned assessed value multiplied by the commercial mill rates for local and upper-tier municipal purposes. However, some properties, such as universities, hospitals and correctional institutions, which have no private sector equivalent and are considered difficult to assess, are paid on the basis of $75 per person or rated bed. Municipalities accommodating such institutions within their boundaries argue that they generate higher service costs than similar commercial properties, even though their payments are much smaller.

It could be argued that it would be fairer to base payments in lieu of taxes in respect of provincially supported universities, hospitals, jails, correctional institutions and mental hospitals on their assessed value multiplied by the mill rate, rather than the present system of $75 per person or rated bed.

In Quebec transfers in lieu on most provincial properties are equivalent to 100 per cent of the taxes that would be paid if the property were taxable. For the property of community colleges, universities and hospitals, the transfer is for 80 per cent of the tax; and for the property of schools (which are provincially rather than locally owned in Quebec) it is 50 per cent. In Nova Scotia transfers in lieu of taxes on the property of provincial departments are equal to the full taxes that would be payable if the property were privately owned. Additional transfers in lieu are paid on the residential property of all hospitals and post-secondary

institutions at the rate of 40 per cent of full taxes that would otherwise be payable.

Committee Recommendation

31. Payments in lieu of taxes under the authority of section 160 of the Municipal Act on properties owned by the Province should be replaced by payments made on an assessment/mill rate basis.

6.12 User Fee Revenue

For some time, user fees have been part of the local government financial structure. Depending on the municipality under consideration, they represent between 10 and 20 per cent of total local government revenue. Their purpose is twofold: to generate revenue and to manage the demand for public services. User fees can be applied to recreational and cultural services such as arenas, libraries, swimming pools and golf courses, as well as to water and sewer services, public transit and daycare facilities.

A recent survey of municipalities in southern Ontario[23] found that those surveyed base user charges on average cost pricing and that most user charges do not include a capital replacement cost component. Whether or not user charges reflect the full cost of providing a service is a local council decision. As well, user charges are not automatically earmarked to fund the service for which they

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[23] Mark Sproule-Jones and John White, "The Scope and Application of User Charges in Municipal Governments," Canadian Tax Journal 37, no. 6, November-December 1989, p.1484.

are charged. Instead they are usually remitted to the municipality's general revenue fund.

The Committee is of the view that because municipalities do not have responsibility for income redistribution, their services are more appropriately financed through user fees than are those of other levels of government.

Under the Quebec tarification model, fees may be charged in any case where a specific user gets a quantifiable benefit, for instance, the use of roads. Road user fees could address two issues: rationing access to highly urbanized areas which would relieve downtown traffic congestion, parking problems and environmental concerns; and funding repairs to roads damaged by heavy trucks in suburban and rural areas. Another local option would be a separate annual user fee, based on tonnage, issued by the county or region for commercial vehicles that primarily use the country or region road network.

Committee Recommendations

32. **Municipalities should be given the authority for more flexible use of user fees to mitigate costs imposed on municipalities.**

33. **When municipalities establish user fees, the following conditions should be borne in mind: the benefits are quantifiable and have little spillovers; charges should consider the consumer's ability to do without the service or good; and charges should be designed to maximize accountability.**

6.13 Licence Fees

Licence fees can be viewed as one means of recovering the costs involved in issuing the licence and regulating the activity that is being licensed. At present some licence fees have statutory maximums and in many cases, even the costs of regulation cannot be recovered.

Committee Recommendation

34. Municipalities should be given the flexibility to fully recover the costs of administration, issuance and enforcement through licence fees.

CHAPTER SEVEN

FINANCING FOR CAPITAL FORMATION

7.1 Infrastructure Needs

A number of recent studies have documented pressures that municipal governments experience in meeting infrastructure needs. It is estimated, for instance, that to meet Ontario's obligations under the Great Lakes Water Quality Agreement over the next ten to fifteen years, capital improvements in excess of $12 billion will be required.

A recent consultants' study of infrastructure needs in the Greater Toronto Area has estimated that approximately $3.6 billion may need to be invested in water and sanitary sewerage facilities to meet growth-related needs to the year 2021. The same study also identified the need for a further $28 billion to finance transportation infrastructure improvements to the year 2021. Funding pressures in other areas of municipal involvement such as homes for the aged, police and fire stations, and cultural and recreational facilities such as libraries also exist.

The infrastructure requirements of the educational system also have a major impact on municipalities as school boards share the tax base with municipalities. The Ministry of Education has made a $1.5 billion commitment to fund capital projects at $300 million per year. The program began in 1989 and will end in 1993. It is estimated that there will also be a need to repair and renovate $20 billion of existing school stock.

Spending requirements over the next ten years are almost evenly split between the rehabilitation of existing

infrastructure and the provision of new infrastructure to accommodate growth. It is clear that in order to adequately meet their infrastructure needs municipalities will have to be afforded greater flexibility in using financing tools.

7.2 Asset Management

Municipalities have considerable holdings in land and buildings, such as stand-alone city halls. In many cases, municipal buildings have excess space and could be made more self-financing by leasing this space out to other occupants. The commercial or residential rents generated could cut the general costs of administration, thereby creating additional tax room.

The more rational use of assets is a desirable goal from an economic perspective. However, if municipalities provide competition to private sector efforts in service provision, there will undoubtedly be complaints of tax-subsidized competition in specific areas.

7.3 Private/Public Sector Arrangements

Municipalities may be encouraged to consider co-ventures with the private sector in the provision of infrastructure, subject to certain safeguards of the public interest.

It is perceived that the Province and municipalities are unwilling or unable to finance the costs of all the infrastructure that voters appear to desire or that has been deemed to be desirable by certain vested interests. This perception has led to private sector inquiries regarding the

possibility of co-ventures in the supply of services that have been publicly provided in recent times. Reaction to specific proposals, such as the North York extension of the subway line by a consortium of private developers, or the Waterloo water pipeline proposed by a major pipeline company, has been mixed.[24]

Generally, these kinds of proposals are evaluated on a case-by-case basis as there has been little recent experience with private sector supply. The issues[25] involved can be summarized as follows:

- Should goods or services be provided publicly or should the government rely on regulation or subsidization of, or contractual arrangements with, private sector firms?

- If goods and services are to be publicly produced, should production be undertaken through the departmental or the corporate form (i.e. integrated within the bureaucracy or existing as a separate entity)?

- If goods and services are to be produced through the corporate form, what should be the extent of the government's ownership interest, the method of creation, the management and accountability regimes, and so on?

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24 For the North York issue, see the Globe and Mail, "Private group proposes subway line along Sheppard," 15 November 1989, p. A15, and Michael Valpy's column on November 16, 1989, "Ominous proposal for public transit," which called into question the implications for North York's Official Plan. For the Waterloo pipeline issue, see Kitchener-Waterloo Record, "Region to use river water in 1991," 27 May 1988, and Regional Municipality of Waterloo, "Long-Term Water Supply Options" (RC-89-15) which called for a Provincial review of the problem.

25 J.R.S. Prichard, ed., Crown Corporations in Canada (Toronto: Butterworths, 1983).

In spite of the vogue for privatization, several arguments for public supply remain. These points should be considered in any potential encouragement of co-ventures:

- federal tax treatment of provincial and municipal utilities discriminates against private sector involvement (the utilities do not pay corporate income tax);
- borrowing costs are cheaper for debt instruments backed by the taxing power of provincial and municipal governments even when compared to the most favourable terms obtainable by the private sector;
- there is public concern over the documented private sector misuse of environmental rules surrounding the disposal of waste; and
- there is a concern over the potential loss of expertise and the ability to judge the alternatives should service provision be entirely handed over to the private sector.

The merits of private services in certain spheres can also be viewed as a transfer of decision-making from one realm to another. There are significant differences between the political realm and the market place where the public does not usually have access to the reasons for corporate decisions.[26]

A major hindrance to better use of public/private arrangements is the restrictive nature of the Municipal Act. The doctrine of "express authority" can limit otherwise logical options for municipalities to engage in creative solutions. Such solutions could include the leasing of facilities from developers and the provision of zoning changes at some predetermined future date in return for the

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[26] Paul Starr, <u>The Limits of Privatization</u> (Washington, D.C.: Economic Policy Institute, 1987), p.11.

use of those facilities by the municipality for a set period.

Other problems are related to the current use of section 36 of the Planning Act. This section was intended to be used as a planning tool. Instead it has been used as a financing tool by municipalities for density bonusing. Increased density is provided to developers in exchange for facilities, services or cash. This use of section 36 as a financing tool has limited its effectiveness with regard to planning. This is not to say that density bonusing is inappropriate, but rather that there should be a clearer separation between the financing and planning processes.

Committee Recommendations

35. **The Province should consider providing municipalities with more flexibility for innovative asset management arrangements and public/private sector co-ventures.**

36. **Section 36 of the Planning Act should be revised to ensure that it is used purely as a planning tool and an equivalent financing tool should be made available to municipalities at both the upper and lower tier levels.**

7.4 Development Charges

The Development Charges Act, 1989 provides legislative authority for municipalities to impose charges on all forms of development in order to fund net capital costs that are related to growth. The new legislation supplants the provisions of the Planning Act, 1983 which have been the authority for municipal lot levies in the past.

In addition to development charges, the Act permits municipalities to enter into front-end financing agreements with developers. Under these agreements, developers will provide up-front services or cash payments to municipalities in order to proceed with the development of their lands at an earlier time than the servicing plans of a municipality would otherwise permit. Over time, municipalities reimburse these developers for their additional costs, through development charges received from other owners of lands benefitting from those services.

Development charges combined with the Committee's other recommendations for financing infrastructure requirements would give municipalities the flexibility and tools necessary to meet their significant infrastructure requirements. However, it should be noted that the use of various financing tools should not result in double charging development. For example, special rates should not be applied for infrastructure which has been fully financed through the use of development charges.

7.5 Long-Term Borrowing for Capital Formation

At the present time municipalities are permitted to borrow for capital projects. The general rule of thumb is that a municipality's borrowing should be limited to an amount which would not cause it debt-servicing requirements to exceed 20 per cent of operating expenditures.

Historically, the debt instruments that municipalities have been allowed to use were severely restricted. This continues today, as the legislation that limits the debt instruments available to municipalities has not been updated

to reflect developments in the financial marketplace. As well, present legislation requires that municipalities must obtain the approval of the Ontario Municipal Board (OMB) for each project to be financed by debt.

Against this background, The Working Committee on Municipal Debt Issuance and Investment Policy was struck with a view toward developing proposals that would allow municipalities to take advantage of some the innovations in financial markets and streamline the OMB approval process. The committee was composed of representatives from the Association of Municipalities of Ontario, the Investment Dealers Association, and staff from the Ministry of Treasury and Economics and the Ministry of Municipal Affairs.

The major changes proposed by the committee would replace the present project-by-project review necessary to obtain approval from the OMB with a system based on a bulk borrowing limit for each municipality. The changes would also ease some of the restrictions on the issuance of debentures in foreign currencies and permit municipalities to hedge exchange and interest risks by means of swaps.

The proposed changes would not permit municipalities to borrow more than is allowable under existing legislation, but they would help to reduce the staff time involved in following the current procedures. They would also give municipalities more flexibility in managing their fiscal affairs.

Committee Recommendation

37. **The Province should proceed with the recommendations of the working committee on debt issuance and investment policy.**

Municipal Capacity to Finance More Capital Costs through Borrowing

Budget Paper E of the 1989 provincial budget suggested that municipalities have considerable capacity to finance needed infrastructure through debt. This was based on the fact that debt charges are only 7 per cent of operating expenditures, not even close to the 20 per cent rule of thumb limit. The paper also revealed the presence of considerable reserves, such as monies set aside for scheduled projects and sick day funds. However, this is an aggregate picture. An examination of the debt situation broken down by municipal sector and the total resources devoted to capital formation presents a different picture.

Table 7-1 shows a sectoral analysis of debt capacity according to the 20 per cent of revenue fund expenditures rule of thumb. The table suggests that debt capacity is most limited in regional upper tiers, the areas with the greatest infrastructure financing demands. The table also illustrates the debt capacity available if the 20 per cent rule of thumb is applied to municipal own-source revenues.

Own-source revenues may provide a more appropriate measure of municipal debt capacity than revenue fund expenditures because they represent those revenues that municipalities directly control. Revenue fund expenditures contain a large component which municipalities can't control. For example, if a municipality must increase its general welfare assistance expenditures, its attendant provincial transfers will also increase. This will raise the municipality's debt capacity, even though its financial position may be weaker.

Table 7-1
Year End Debt Capacity Position 1988

	Based On 20% Revenue Fund Expenditures	Based On 20% Own-Source Revenue
	$Million	$Million
South		
Metro Toronto		
Upper Tier	1,553	640
Lower Tier	409	184
Regions		
Upper Tier	749	(322)
Lower Tier	1,555	1,135
Co. Cities	785	286
Counties		
Upper Tier	524	189
Lower Tier	591	292
Total	6,166	2,404
North		
Region (Sudbury)		
Upper Tier	38	(33)
Lower Tier	80	45
Dis. Cities	243	33
Districts	313	114
Total	674	159
TOTAL	6,840	2,564

Table 7-2 examines the reserves situation. While there are $3 billion in reserves, over one-third of these are for purposes other than capital formation, such as employee sick leave and supplementary pension benefits. Another significant portion is accounted for by work-in-progress. This indicates that there is not as much capacity for financing of infrastructure through borrowing as an aggregated picture would lead one to believe. Some additional flexibility could be introduced by establishing a new means of dividing available debt capacity between upper tiers and the lower tiers they contain.

Table 7-2
Year End Balance of Municipal
Reserves and Reserve Funds 1988

	Metropolitan Toronto U.T.	Metropolitan Toronto L.T.	Regions U.T.	Regions L.T.	Provincial Total
	$Million		$Million		$Million
Capital Expenditures	172	112	231	363	1,145
Lot Levies	0	712	294	52	838
Other Purposes	115	212	211	263	1,070
Total	287	395	671	1,078	3,053

Although realigning municipal roles and responsibilities as outlined in Chapter Three may or may not change municipalities' ability to repay debt, it would affect the operation of the rule of thumb for determining debt capacity. Since municipal expenditure responsibilities would decrease, their debt capacity would be reduced by 20% of that decrease. Accordingly, a new guideline would be needed which is neutral in terms of the municipal borrowing allowed. One possibility would be to permit borrowing to an amount which would not cause debt service charges to exceed a given percentage of own-source revenues.

Currently, 35 per cent of own-source operating revenues yields an aggregate municipal debt capacity equivalent to that yielded by the existing guideline of 20 per cent of operating expenditure. This would not encourage greater use of debt by municipalities. Rather, it would ensure that municipalities do not lose financing flexibility as a result of any realignment of roles and responsibilities.

Committee Recommendation

38. Given a realignment of roles and responsibilities, Ontario Municipal Board debt guidelines should be revised and based on municipal own-source revenue.

CHAPTER EIGHT

IMPLEMENTING A NEW DIVISION OF ROLES AND RESPONSIBILITIES

The Committee's deliberations have established a broad framework for how roles should be divided between each level of government, as well as general principles for financing these roles. Within this framework, a more detailed review of responsibilities would be necessary to continue the process of realignment. This refinement on the Committee's work would require a detailed listing of all services and programs that currently involve some municipal participation. It would also include information on present responsibility, the degree of municipal flexibility in providing the service or program (or conversely, the degree of provincial regulation) and the present financing arrangements.

This detailed review would allow both levels of government to be fully aware of the full implications of any shifting of responsibilities. Mutually agreeable new arrangements could then be negotiated based on this information as well as the principles outlined in Chapter Two.

This necessary next step could be initiated while public consultation regarding this report is occurring. In addition, the Province could immediately begin reviewing those services which are identified in the report as likely to remain cost shared programs with a view to rationalizing reporting requirements.

Although these new responsibilities would be more appropriate than those they are replacing, transitional assistance should likely be made available for up to five years. This would guard against large and abrupt increases

in property tax for the residents and businesses of particulary hard-hit municipalities. Regardless of the funding balance chosen between the Province and the municipal sector as a whole, a realignment of roles and responsibilities would mean significant redistribution of financial responsibilities among municipal jurisdictions, as well as between upper and lower tiers.

Transitional assistance should be considered in situations where there is a significant net loss to a jurisdiction. In cases where lower-tier expenditures increased significantly, and upper tier expenditures remained the same or increased, it may then be appropriate to provide transitional assistance. There would be no assistance if, for example, the lower tier had an increased financing burden of $90 per household but the upper tier's burden decreased by $90.

For this arrangement to work effectively and not result in an overall increase to the municipal taxpayer, both tiers of government would have to consider the net upper tier/lower tier effect in their respective jurisdictions. That is, an upper tier which sees an overall reduction in the need for property tax revenue should not view this as an opportunity to occupy the tax room by providing new or higher quality services. Instead, it must realize that there would very likely be an increase in the need for property taxes from the lower tier.

The Association of Municipalities of Ontario could undertake a comprehensive education program to make upper and lower tier councils aware of the implications on taxpayers of the shifting financial burden between upper and lower tiers.

In order to plan for their new roles and responsibilities from both a financial and a human resources standpoint, municipalities would need to be advised of any new arrangements a minimum of nine months before implementation.

Where it is determined that a level of government has policy/service management and financial responsibility for a service, that level may choose to negotiate a delivery arrangement with the other level of government if it does not feel that it is the most efficient delivery agent. This would be on a fee for service basis. However, neither level should assume that the other level expects it to act as delivery agent or that the other level expects to be the delivery agent. Where there has been a change in responsibility and the newly responsible level of government chooses to deliver the service itself, that level could retain the staff that previously delivered the program.

If both levels agreed to a fee for service arrangement, a contract should specify the expectations of the policy/service manager and the responsibilities of the delivery agent. From an accounting standpoint, administrative costs could be treated as fees for the delivery agent and where there are transfers to individuals involved, they could be treated as transfers to individuals from the responsible level.

The Committee recognizes that realigning roles and responsibilities would result in cost and revenue shifts between the two levels of government. This could be done within a framework of fiscal neutrality. The intent is not to create windfalls between levels of government but to realign roles and responsibilities in a logical manner. Implementation would require negotiation between

municipalities and the Province to establish an appropriate fiscal framework.

Within such a framework, unconditional transfers could be used to balance a new arrangement. If under a proposed new arrangement, the Province's financial responsibilities increase, the unconditional transfer allocation would become smaller. Similarly, if the municipal level becomes responsible for a greater share of expenditures, the unconditional transfer allocation would increase.

Committee Recommendation

39. **The Province should adopt the direction for realigning roles and responsibilities in this report and should establish a fiscal framework for implementation, in consultation with the municipal sector.**

APPENDIX 1

Classification of Municipal Services by Functional Category

Gen'l Government (General Government)- Members of council; officers, departments and administrative buildings primarily involved in general administration and whose expenses cannot readily be allocated to any other functions (chief administrative officer, clerk's department, treasury department, town hall, etc.); expenditures that cannot be allocated to other specific functions; contributions to municipal hydro, gas and telephone utilities.

Fire- Fire-fighting forces (regular and volunteer); fire halls; equipment; auxiliary services; fire prevention and inspections; other fire protection expenditures.

Police- Police force; offices; garages; lock-ups; equipment; police animals; boards of police commissioners; police communication systems.

Conservation Authorities- Conservation Authorities.

Protective Insp. (Protection inspection and control)- Building and structural inspections; fence viewing; pest control; animal control; by-law enforcement (where not a public health function); licensing commissions; flood control and flood damage repairs; dog pounds.

Roadways-Arterial (for Arterial, County, Collector and Regional Roads)- repairs and maintenance of road surfaces, shoulders, roadsides, sidewalks and bridges; surface drains and ditches; child crossing patrols; pavement marking; traffic signs; railway crossing signals.

Roadways-Local (for Local Roads)- Repairs and maintenance of road surfaces, shoulders, roadsides, sidewalks and bridges; suburban roads commissions; surface drains and ditches; child crossing patrols; pavement marking; traffic signs; railway crossing signals.

Winter Control-Arterial- Winter Control (salting, sanding and snow removal) for arterial, county, collector and regional roads.

Winter Control-Local- Winter Control (salting, sanding and snow removal) for local roads.

Transit- Public transit commissions.

Transit for Disabled- Transit services to meet special needs of the disabled.

Parking- Operation of parking authorities; parking control officers.

Street Lighting- Lighting of streets, roadways, bridges, underpasses, etc.

Air Transportation- Airport commissions; landing strips and airports.

Sanitary Sewer-Plant- Sewage treatment plants; related pollution control.

Sanitary Sewer-Collection- Sanitary sewers; related pollution control.

Storm Sewer-Arterial- Storm sewers relating to arterial, county, collector and regional roads.

Storm Sewer-Local- Storm sewers relating to local roads.

Water Works-Plant- Waterworks systems, plant portion.

Water Works-Distribution- Waterworks systems, distribution portion; watermains.

Garbage Collection- Collection of garbage and waste.

Garbage Disposal- Disposal of garbage and waste (incinerators, dumps and sanitary land fills).

Public Health Services- Health units; venereal disease control; communicable disease control (including immunization and vaccination); care of indigents (medical attention out of hospital, drugs); grants to volunteer health organizations; school dental care.

Pub. Health Insp. (Public health inspection and control)- Water, food, public eating places and other public health inspections; disinfestation of premises.

Hospitals- Grants to public hospitals; contributions to municipally-owned hospitals.

Ambulance Services- Ambulance services; contributions to private ambulance services.

Cemeteries- Cemetery boards; morgues; contributions to private cemeteries.

General Welfare Assistance- Aid to unemployed and unemployable persons (living allowances, care of dependents, transportation and rehabilitation); welfare boards.

Assistance to Aged (Homes)- Homes for the aged; housing for elderly persons.

Community Services- Homemaking and nursing services to incapacitated persons; grants to volunteer organizations assisting the aged; transit subsidies for elderly persons; social and recreational activities.

Children's Welfare- Requisitions of children's aid societies; grants to volunteer organizations assisting children;

Child Care- Child care; contributions to privately operated day care.

Parks- Boards of parks management; parks, playgrounds and amusement parks; community centres and halls; skating rinks; swimming pools; stadiums and arenas.

Recreation- Grants to volunteer organizations; community and recreation programs; exhibitions and fairs; public celebrations; other recreation expenditures.

Libraries- Library boards; other library expenditures.

Cultural Activities- Zoos, theatres, auditoriums, concert halls, art galleries, museums and archives; historic sites; grants to volunteer organizations; other cultural programs.

Planning & Zoning- Official plan; planning departments; planning boards; committees of adjustment; land division committees; urban renewal surveys and studies.

Economic Development- Industrial or development commissions and committees; industrial parks and land assembly for residential, commercial and industrial purposes; grants to boards of trade and chambers of commerce; business improvement areas; tourist information and promotion; commercial and industrial portion of urban renewal program.

Assisted Housing- Public housing; housing studies; contributions to unconsolidated non-profit housing agencies.

Agri. & Reforestation (Agriculture and Reforestation)- reforestation projects; weed control and tree cutting; grants to agricultural societies.

Tile Drainage- Tile drainage carried out under the Tile Drainage Act.

Shoreline Assistance- Programs under the Shoreline Property Assistance Act.

APPENDIX 2

Methodology for Analysis on Expenditure Responsibilities

Present Total Municipal Expenditures = Total municipal expenditures based on the 1988 Financial Information Return and adjusted to reflect subcategories. Adjustments were also made to remove transfers and fees between municipalities and transfers to reserve funds.

Subcategories and assumptions on percentage of total function expenditure.

	Operating %	Capital %
Roads, Sewer, Winter Control		
-arterial	upper tier or 20	upper tier or 50
-local	lower tier or 80	lower tier or 50
Sewer-plant	60	75
-collection	40	25
Water-plant	40	60
-distribution	60	40
Assistance to Aged		
-homes for aged	77	100
-community service	23	0

Present Net Municipal Expenditures = Present Total Municipal Expenditures minus function-specific transfers as recorded in the 1988 Financial Information Return. Transfers adjusted to reflect above sub-category percentages.

Net municipal expenditures for transit, homes for aged and tile/shoreline assistance are also net of user fees. For homes for the aged, a transfer rate of 70 per cent of total municipal expenditures less user fees, has been applied.

Recommended Total Municipal Expenditures (not included on summary sheets) = Present Total Municipal Expenditures adjusted for the value of free policing, transfers to conservation authorities and for provincial responsibilities.

Free policing has been valued $100 per capita for municipalities receiving it. The Solicitor General has indicated that one O.P.P. constable is required for each 700 people and the cost of a constable and related expenses is estimated at $70,000 per year.

Transfers to conservation authorities for 1988 has been estimated at $42,758,000. This is the adjustment made in preparing the Municipal Financial Information book.

Provincial responsibilities are assumed to be fully funded by the Province and as a result do not show anywhere as municipal expenditures.

Recommended Net Municipal Expenditures = Recommended Total Municipal Expenditures minus function-specific transfers. Net municipal expenditures for transit, homes for aged and tile/shoreline assistance are also net of user fees. Ontario specific transfers have been calculated by applying the following transfer rates to the Recommended Total Municipal Expenditures:

P= Provincial responsibility, has no municipal expenditure component (ie. not included in recommended total municipal expenditures);

S= Shared responsibility, a 50% transfer rate (except transit where the transfer rate is applied to total expenditures net of user fees);

M= Municipal responsibility, no transfers made.

Table A2-1
CHANGES IN FUNDING RESPONSIBILITIES FOR ALL MUNICIPALITIES
OPERATING, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures**	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	842,117	836,685	841,221	4,536
Fire	M	553,666	552,654	553,645	991
Police	S	987,947	987,047	560,524	(426,524)
Con. Authority	S	34,351	34,295	38,507	4,212
Protective Insp.	M	135,018	133,954	134,960	1,006
Roadways-Arterial	S	263,066	172,527	131,442	(41,085)
-Local	M	576,394	380,373	576,219	195,847
Winter Cntrl-Arterial	S	56,036	30,366	28,018	(2,348)
-Local	M	102,371	57,126	102,371	45,246
Transit	S	950,243	160,127	163,163	3,036
Parking	M	63,667	63,096	63,667	571
Street Lighting	M	64,521	63,990	64,338	348
Air Transportation	P	11,434	7,496	0	(7,496)
Sanitary Sewer-Plant	M	261,001	257,555	260,997	3,442
-Collection	M	174,001	171,705	173,998	2,293
Storm Sewer-Arterial	M	4,998	4,721	4,994	274
-Local	M	46,996	44,491	46,960	2,469
Water Works-Plant	M	187,754	187,508	187,754	247
-Distribution	M	250,339	249,969	250,339	370
Garbage Collection	M	167,940	164,928	167,935	3,007
Garbage Disposal	S	145,220	139,885	72,601	(67,284)
Pub. Health Services	P	208,882	67,029	0	(67,029)
Pub. Health Insp.	M	18,764	13,489	18,764	5,275
Hospitals	P	16,980	16,956	0	(16,956)
Ambulance Services	P	50,871	21,777	0	(21,777)
Cemeteries	M	15,464	15,414	15,448	34
General Welfare Ass.	P	870,651	220,836	0	(220,836)
Ass. to Aged (Homes)	P	388,323	76,293	0	(76,293)
Community Services	M	115,993	33,386	115,993	82,606
Children's welfare	P	55,072	54,065	0	(54,065)
Child Care	P	203,959	48,396	0	(48,396)
Parks & Recreation	M	723,521	708,954	721,056	12,102
Libraries	M	260,720	228,459	260,145	31,686
Cultural Activities	S	92,583	88,676	45,494	(43,182)
Planning & Zoning	M	111,743	107,947	111,607	3,660
Economic Development	M	80,438	76,992	79,801	2,809
Assisted Housing	P	23,952	22,916	0	(22,916)
Agri. & Reforestation	M	12,912	10,844	12,633	1,789
Tile /Shoreline Ass.	P	35,050	729	0	(729)
Total		9,164,957	6,513,661	5,804,597	(709,064)

* Total expenditures minus specific transfers (except for Transit, Ass. to Aged (Homes), and Tile/Shoreline Ass. where also net of user fees).

** Transfers applied to total recommended expenditures except for Transit where user fees netted off before applying transfer rate.

Table A2-2
CHANGES IN FUNDING RESPONSIBILITIES FOR METROPOLITAN TORONTO
OPERATING, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures**	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	258,078	257,382	257,942	560
Fire	M	178,397	178,331	178,394	63
Police	S	399,983	399,960	199,992	(199,969)
Con. Authority	S	8,974	8,974	8,376	(598)
Protective Insp.	M	46,937	46,874	46,930	57
Roadways-Arterial	S	55,246	44,288	27,616	(16,672)
-Local	M	104,436	83,735	104,436	20,701
Winter Cntrl-Arterial	S	8,465	5,539	4,233	(1,306)
-Local	M	16,714	10,937	16,714	5,777
Transit	S	585,738	72,397	78,101	5,703
Parking	M	30,047	30,047	30,047	0
Street Lighting	M	17,201	16,858	17,201	343
Air Transportation	P	0	0	0	0
Sanitary Sewer-Plant	M	74,553	73,116	74,553	1,437
-Collection	M	49,702	48,744	49,702	958
Storm Sewer-Arterial	M	2	2	2	0
-Local	M	14,408	14,076	14,408	332
Water Works-Plant	M	45,408	45,408	45,408	0
-Distribution	M	68,112	68,112	68,112	0
Garbage Collection	M	61,421	60,099	61,421	1,322
Garbage Disposal	S	51,909	51,899	25,955	(25,945)
Pub. Health Services	P	61,446	33,010	0	(33,010)
Pub. Health Insp.	M	9,181	7,999	9,181	1,182
Hospitals	P	1,855	1,855	0	(1,855)
Ambulance Services	P	49,181	21,774	0	(21,774)
Cemeteries	M	2	2	2	0
General Welfare Ass.	P	328,466	81,663	0	(81,663)
Ass. to Aged (Homes)	P	83,458	18,462	0	(18,462)
Community Services	M	24,929	6,514	24,929	18,415
Children's welfare	P	17,045	17,045	0	(17,045)
Child Care	P	107,695	26,681	0	(26,681)
Parks & Recreation	M	245,203	242,536	244,995	2,458
Libraries	M	105,432	97,495	105,388	7,892
Cultural Activities	S	45,480	44,910	22,687	(22,223)
Planning & Zoning	M	26,178	25,841	26,176	335
Economic Development	M	16,148	16,028	16,039	11
Assisted Housing	P	8,766	8,736	0	(8,736)
Agri. & Reforestation	M	0	0	0	0
Tile /Shoreline Ass.	P	12	0	0	0
Total		3,206,210	2,167,331	1,758,938	(408,394)

* Total expenditures minus specific transfers (except for Transit, Ass. to Aged (Homes), and Tile/Shoreline Ass. where also net of user fees).

** Transfers applied to total recommended expenditures except for Transit where user fees netted off before applying transfer rate.

Table A2-3
CHANGES IN FUNDING RESPONSIBILITIES FOR REGIONS
OPERATING, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures**	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	315,761	314,291	315,508	1,216
Fire	M	226,262	225,787	226,260	473
Police	S	369,979	369,751	192,997	(176,754)
Con. Authority	S	15,496	15,496	14,800	(696)
Protective Insp.	M	55,459	55,259	55,456	196
Roadways-Arterial	S	100,713	70,067	50,323	(19,744)
-Local	M	209,683	145,880	209,614	63,735
Winter Cntrl-Arterial	S	26,666	15,200	13,333	(1,867)
-Local	M	44,782	25,526	44,782	19,256
Transit	S	276,274	68,104	64,789	(3,315)
Parking	M	17,298	16,734	17,298	564
Street Lighting	M	26,002	25,998	26,002	5
Air Transportation	P	4,165	2,449	0	(2,449)
Sanitary Sewer-Plant	M	120,536	119,285	120,536	1,250
-Collection	M	80,357	79,524	80,357	834
Storm Sewer-Arterial	M	1,691	1,540	1,687	147
-Local	M	17,079	15,561	17,045	1,485
Water Works-Plant	M	73,704	73,696	73,704	8
-Distribution	M	110,556	110,544	110,556	13
Garbage Collection	M	63,916	62,642	63,916	1,274
Garbage Disposal	S	50,610	49,265	25,305	(23,960)
Pub. Health Services	P	65,133	13,405	0	(13,405)
Pub. Health Insp.	M	7,224	4,176	7,224	3,047
Hospitals	P	10,962	10,962	0	(10,962)
Ambulance Services	P	243	0	0	(0)
Cemeteries	M	9,300	9,279	9,298	19
General Welfare Ass.	P	319,636	83,465	0	(83,465)
Ass. to Aged (Homes)	P	118,155	23,477	0	(23,477)
Community Services	M	35,293	13,428	35,293	21,866
Children's welfare	P	20,455	20,224	0	(20,224)
Child Care	P	67,852	15,436	0	(15,436)
Parks & Recreation	M	282,248	279,181	281,826	2,645
Libraries	M	93,398	80,847	93,139	12,292
Cultural Activities	S	27,250	26,104	13,437	(12,667)
Planning & Zoning	M	58,564	57,495	58,523	1,028
Economic Development	M	31,587	31,352	31,557	205
Assisted Housing	P	7,696	7,283	0	(7,283)
Agri. & Reforestation	M	5,838	5,410	5,825	415
Tile /Shoreline Ass.	P	4,968	42	0	(42)
Total		3,372,792	2,544,165	2,260,390	(283,775)

* Total expenditures minus specific transfers (except for Transit, Ass. to Aged (Homes), and Tile/Shoreline Ass. where also net of user fees).

** Transfers applied to total recommended expenditures except for Transit where user fees netted off before applying transfer rate.

Table A2-4

CHANGES IN FUNDING RESPONSIBILITIES FOR COUNTY CITIES

OPERATING, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures**	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	86,481	85,906	86,271	365
Fire	M	82,983	82,827	82,981	154
Police	S	123,805	123,424	61,878	(61,546)
Con. Authority	S	3,735	3,687	5,021	1,333
Protective Insp.	M	12,456	12,353	12,433	80
Roadways-Arterial	S	19,220	15,152	9,608	(5,544)
-Local	M	76,881	57,227	76,871	19,643
Winter Cntrl-Arterial	S	2,685	1,510	1,342	(168)
-Local	M	10,740	6,041	10,740	4,699
Transit	S	63,470	9,981	12,407	2,425
Parking	M	11,392	11,392	11,392	0
Street Lighting	M	9,322	9,139	9,139	0
Air Transportation	P	1,739	1,525	0	(1,525)
Sanitary Sewer-Plant	M	25,267	24,966	25,265	299
-Collection	M	16,844	16,645	16,844	198
Storm Sewer-Arterial	M	2,732	2,617	2,732	114
-Local	M	10,928	10,468	10,926	458
Water Works-Plant	M	37,551	37,551	37,551	0
-Distribution	M	25,034	25,034	25,034	0
Garbage Collection	M	17,274	17,170	17,274	104
Garbage Disposal	S	17,466	17,312	8,733	(8,579)
Pub. Health Services	P	23,881	6,743	0	(6,743)
Pub. Health Insp.	M	93	(19)	93	112
Hospitals	P	2,233	2,233	0	(2,233)
Ambulance Services	P	0	0	0	0
Cemeteries	M	1,108	1,108	1,108	0
General Welfare Ass.	P	103,377	30,151	0	(30,151)
Ass. to Aged (Homes)	P	38,346	7,155	0	(7,155)
Community Services	M	11,454	3,379	11,454	8,075
Children's welfare	P	6,925	6,833	0	(6,833)
Child Care	P	11,345	(253)	0	253
Parks & Recreation	M	76,197	74,777	76,142	1,366
Libraries	M	29,994	26,328	29,934	3,606
Cultural Activities	S	11,044	10,275	5,394	(4,881)
Planning & Zoning	M	8,108	7,861	8,081	220
Economic Development	M	16,378	16,043	16,223	180
Assisted Housing	P	2,819	2,605	0	(2,605)
Agri. & Reforestation	M	153	63	153	90
Tile /Shoreline Ass.	P	14	(1)	0	1
Total		1,001,474	767,211	673,022	(94,189)

* Total expenditures minus specific transfers (except for Transit, Ass. to Aged (Homes), and Tile/Shoreline Ass. where also net of user fees).

** Transfers applied to total recommended expenditures except for Transit where user fees netted off before applying transfer rate.

Table A2-5
CHANGES IN FUNDING RESPONSIBILITIES FOR DISTRICT CITIES
OPERATING, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures**	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	21,562	21,488	21,548	60
Fire	M	24,432	24,427	24,432	5
Police	S	34,032	33,956	16,956	(17,000)
Con. Authority	S	1,451	1,451	1,688	237
Protective Insp.	M	3,159	3,149	3,159	11
Roadways-Arterial	S	4,965	3,852	2,483	(1,370)
-Local	M	19,861	15,409	19,861	4,452
Winter Cntrl-Arterial	S	1,827	1,174	914	(260)
-Local	M	7,309	4,695	7,309	2,614
Transit	S	20,757	6,913	6,423	(490)
Parking	M	3,038	3,038	3,038	0
Street Lighting	M	2,345	2,345	2,345	0
Air Transportation	P	0	0	0	0
Sanitary Sewer-Plant	M	9,530	9,522	9,530	8
-Collection	M	6,353	6,348	6,353	5
Storm Sewer-Arterial	M	573	561	573	12
-Local	M	2,294	2,246	2,294	48
Water Works-Plant	M	6,129	6,124	6,129	5
-Distribution	M	9,194	9,186	9,194	8
Garbage Collection	M	4,255	4,255	4,255	0
Garbage Disposal	S	2,937	2,861	1,469	(1,393)
Pub. Health Services	P	12,336	1,837	0	(1,837)
Pub. Health Insp.	M	501	501	501	0
Hospitals	P	244	244	0	(244)
Ambulance Services	P	0	(85)	0	85
Cemeteries	M	1,093	1,085	1,093	8
General Welfare Ass.	P	31,545	7,375	0	(7,375)
Ass. to Aged (Homes)	P	30,624	6,485	0	(6,485)
Community Services	M	9,147	1,900	9,147	7,248
Children's Welfare	P	2,286	1,981	0	(1,981)
Child Care	P	3,298	925	0	(925)
Parks & Recreation	M	25,964	25,240	25,535	295
Libraries	M	7,357	6,375	7,351	976
Cultural Activities	S	2,274	2,169	1,103	(1,066)
Planning & Zoning	M	2,455	2,352	2,423	71
Economic Development	M	3,603	3,375	3,583	208
Assisted Housing	P	1,257	1,207	0	(1,207)
Agri. & Reforestation	M	0	(122)	(122)	0
Tile /Shoreline Ass.	P	16	0	0	0
Total		320,008	225,844	200,570	(25,274)

* Total expenditures minus specific transfers (except for Transit, Ass. to Aged (Homes), and Tile/Shoreline Ass. where also net of user fees).

** Transfers applied to total recommended expenditures except for Transit where user fees netted off before applying transfer rate.

Table A2-6

CHANGES IN FUNDING RESPONSIBILITIES FOR COUNTIES

OPERATING, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures**	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	125,888	123,637	125,707	2,070
Fire	M	31,883	31,622	31,871	250
Police	S	46,576	46,451	72,893	26,442
Con. Authority	S	4,674	4,670	8,550	3,880
Protective Insp.	M	14,258	13,619	14,242	623
Roadways-Arterial	S	70,072	32,073	35,016	2,942
-Local	M	140,589	64,350	140,548	76,198
Winter Cntrl-Arterial	S	13,236	5,226	6,618	1,392
-Local	M	16,697	6,592	16,697	10,105
Transit	S	2,717	1,888	951	(936)
Parking	M	1,328	1,328	1,328	0
Street Lighting	M	7,368	7,368	7,368	0
Air Transportation	P	808	518	0	(518)
Sanitary Sewer-Plant	M	23,397	23,087	23,397	310
-Collection	M	15,598	15,391	15,598	207
Storm Sewer-Arterial	M	0	0	0	0
-Local	M	1,782	1,724	1,782	58
Water Works-Plant	M	19,973	19,842	19,973	131
-Distribution	M	29,959	29,763	29,959	196
Garbage Collection	M	16,703	16,407	16,702	294
Garbage Disposal	S	18,784	15,438	9,385	(6,053)
Pub. Health Services	P	39,235	9,426	0	(9,426)
Pub. Health Insp.	M	1,323	410	1,323	913
Hospitals	P	1,251	1,228	0	(1,228)
Ambulance Services	P	1,020	57	0	(57)
Cemeteries	M	2,552	2,538	2,542	3
General Welfare Ass.	P	72,682	12,537	0	(12,537)
Ass. to Aged (Homes)	P	90,683	15,832	0	(15,832)
Community Services	M	27,087	5,109	27,087	21,978
Children's welfare	P	6,924	6,698	0	(6,698)
Child Care	P	10,789	4,421	0	(4,421)
Parks & Recreation	M	67,721	63,469	67,173	3,703
Libraries	M	19,505	13,855	19,404	5,549
Cultural Activities	S	5,290	4,280	2,351	(1,929)
Planning & Zoning	M	14,336	13,116	14,321	1,205
Economic Development	M	8,466	7,990	8,227	236
Assisted Housing	P	704	562	0	(562)
Agri. & Reforestation	M	6,748	5,367	6,606	1,239
Tile /Shoreline Ass.	P	28,802	685	0	(685)
Total		1,007,408	628,577	727,619	99,042

* Total expenditures minus specific transfers (except for Transit, Ass. to Aged (Homes), and Tile/Shoreline Ass. where also net of user fees).

** Transfers applied to total recommended expenditures except for Transit where user fees netted off before applying transfer rate.

Table A2-7

CHANGES IN FUNDING RESPONSIBILITIES FOR DISTRICTS

OPERATING, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures**	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	34,346	33,980	34,245	265
Fire	M	9,709	9,661	9,706	46
Police	S	13,572	13,505	15,808	2,303
Con. Authority	S	21	16	72	56
Protective Insp.	M	2,749	2,700	2,740	40
Roadways-Arterial	S	12,850	7,094	6,397	(697)
-Local	M	24,944	13,771	24,889	11,118
Winter Cntrl-Arterial	S	3,157	1,718	1,579	(140)
-Local	M	6,129	3,335	6,129	2,793
Transit	S	1,287	844	492	(352)
Parking	M	564	557	564	7
Street Lighting	M	2,282	2,282	2,282	0
Air Transportation	P	4,722	3,004	0	(3,004)
Sanitary Sewer-Plant	M	7,718	7,579	7,716	137
-Collection	M	5,146	5,053	5,144	91
Storm Sewer-Arterial	M	0	0	0	0
-Local	M	505	417	505	89
Water Works-Plant	M	4,989	4,887	4,989	102
-Distribution	M	7,484	7,331	7,484	153
Garbage Collection	M	4,371	4,354	4,368	13
Garbage Disposal	S	3,512	3,110	1,755	(1,356)
Pub. Health Services	P	6,851	2,606	0	(2,606)
Pub. Health Insp.	M	443	421	443	22
Hospitals	P	435	435	0	(435)
Ambulance Services	P	427	32	0	(32)
Cemeteries	M	1,408	1,403	1,406	3
General Welfare Ass.	P	14,945	5,645	0	(5,645)
Ass. to Aged (Homes)	P	27,056	4,883	0	(4,883)
Community Services	M	8,082	3,057	8,082	5,024
Children's Welfare	P	1,437	1,284	0	(1,284)
Child Care	P	2,981	1,185	0	(1,185)
Parks & Recreation	M	26,188	23,751	25,386	1,635
Libraries	M	5,035	3,559	4,930	1,371
Cultural Activities	S	1,245	937	522	(415)
Planning & Zoning	M	2,101	1,282	2,084	802
Economic Development	M	4,256	2,203	4,173	1,969
Assisted Housing	P	2,710	2,523	0	(2,523)
Agri. & Reforestation	M	174	126	171	44
Tile /Shoreline Ass.	P	1,236	3	0	(3)
Total		257,066	180,533	184,058	3,525

* Total expenditures minus specific transfers (except for Transit, Ass. to Aged (Homes), and Tile/Shoreline Ass. where also net of user fees).

** Transfers applied to total recommended expenditures except for Transit where user fees netted off before applying transfer rate.

Table A2-8
CHANGES IN FUNDING RESPONSIBILITIES FOR ALL MUNICIPALITIES
CAPITAL, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	216,008	212,553	215,746	3,193
Fire	M	79,249	78,144	79,050	906
Police	S	23,049	22,792	11,494	(11,298)
Con. Authority	S	8,805	8,805	4,403	(4,403)
Protective Insp.	M	4,985	4,846	4,937	91
Roadways-Arterial	S	359,547	196,612	175,030	(21,581)
-Local	M	435,333	268,387	432,302	163,915
Winter Cntrl-Arterial	S	43	9	21	13
-Local	M	2,877	2,566	2,852	286
Transit	S	211,758	85,591	105,879	20,288
Parking	M	13,197	13,135	13,193	58
Street Lighting	M	7,610	7,224	7,610	387
Air Transportation	P	7,870	2,186	0	(2,186)
Sanitary Sewer-Plant	S	217,796	155,333	108,133	(47,200)
-Collection	M	72,599	51,778	72,344	20,566
Storm Sewer-Arterial	S	11,896	10,274	5,948	(4,326)
-Local	M	64,522	49,680	64,522	14,841
Water Works-Plant	S	160,841	122,183	80,419	(41,765)
-Distribution	M	107,228	81,456	107,227	25,771
Garbage Collection	M	14,991	13,841	14,991	1,150
Garbage Disposal	S	67,943	56,872	31,190	(25,682)
Pub. Health Services	P	8,971	4,076	0	(4,076)
Pub. Health Insp.	M	6,847	6,372	6,843	471
Hospitals	P	19,400	19,151	0	(19,151)
Ambulance Services	P	4,210	4,085	0	(4,085)
Cemeteries	M	1,674	1,671	1,674	3
General Welfare Ass.	P	1,797	1,641	0	(1,641)
Ass. to Aged Persons	P	66,067	35,500	0	(35,500)
Community Services	M	0	0	0	0
Children's Welfare	P	383	339	0	(339)
Child Care	P	3,149	1,677	0	(1,677)
Parks & Recreation	M	232,962	202,397	230,869	28,472
Libraries	M	38,687	33,737	38,655	4,918
Cultural Activities	S	14,252	9,296	5,194	(4,102)
Planning & Zoning	M	8,613	6,910	8,503	1,593
Economic Development	M	76,831	70,088	74,875	4,787
Assisted Housing	P	85,876	83,934	0	(83,934)
Agri. & Reforestation	M	11,794	8,495	11,743	3,248
Tile/Shoreline Ass.	P	0	0	0	0
Total		2,669,661	1,933,634	1,915,646	(17,988)

* Total Expenditures minus specific transfers.

Table A2-9
CHANGES IN FUNDING RESPONSIBILITIES FOR METROPOLITAN TORONTO
CAPITAL, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	84,771	84,467	84,621	155
Fire	M	35,001	35,001	35,001	0
Police	S	0	0	0	0
Con. Authority	S	6,156	6,156	3,078	(3,078)
Protective Insp.	M	1,115	1,115	1,115	0
Roadways-Arterial	S	60,308	30,606	26,729	(3,877)
-Local	M	58,328	38,281	56,528	18,247
Winter Cntrl-Arterial	S	0	0	0	0
-Local	M	146	146	146	0
Transit	S	116,876	46,525	58,438	11,913
Parking	M	4,700	4,700	4,700	0
Street Lighting	M	1,252	1,252	1,252	0
Air Transportation	P	0	0	0	0
Sanitary Sewer-Plant	S	49,299	36,934	24,343	(12,591)
-Collection	M	16,433	12,311	16,331	4,020
Storm Sewer-Arterial	S	182	182	91	(91)
-Local	M	11,468	7,322	11,468	4,146
Water Works-Plant	S	14,843	13,635	7,422	(6,213)
-Distribution	M	9,895	9,090	9,895	806
Garbage Collection	M	6,190	6,190	6,190	0
Garbage Disposal	S	29,111	27,545	14,556	(12,990)
Pub. Health Services	P	690	690	0	(690)
Pub. Health Insp.	M	10	10	10	0
Hospitals	P	2,590	2,590	0	(2,590)
Ambulance Services	P	3,824	3,824	0	(3,824)
Cemeteries	M	0	0	0	0
General Welfare Ass.	P	538	538	0	(538)
Ass. to Aged Persons	P	13,623	7,305	0	(7,305)
Community Services	M	0	0	0	0
Children's Welfare	P	0	0	0	0
Child Care	P	1,217	1,117	0	(1,117)
Parks & Recreation	M	38,601	36,660	38,597	1,937
Libraries	M	9,493	9,511	9,493	(17)
Cultural Activities	S	2,765	2,765	1,382	(1,382)
Planning & Zoning	M	271	259	271	12
Economic Development	M	4,250	4,107	4,250	143
Assisted Housing	P	70,263	70,307	0	(70,307)
Agri. & Reforestation	M	0	0	0	0
Tile/Shoreline Ass.	P	0	0	0	0
Total		654,210	501,139	415,907	(85,232)

* Total Expenditures minus specific transfers.

Table A2-10
CHANGES IN FUNDING RESPONSIBILITIES FOR REGIONS
CAPITAL, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	101,280	100,174	101,201	1,028
Fire	M	22,905	22,684	22,863	178
Police	S	15,991	15,930	7,976	(7,955)
Con. Authority	S	2,153	2,153	1,076	(1,076)
Protective Insp.	M	2,149	2,138	2,149	11
Roadways-Arterial	S	172,224	109,388	85,468	(23,919)
-Local	M	207,547	149,449	206,807	57,358
Winter Cntrl-Arterial	S	0	0	0	0
-Local	M	1,005	978	1,005	27
Transit	S	86,879	36,297	43,440	7,143
Parking	M	6,240	6,183	6,240	56
Street Lighting	M	3,706	3,658	3,706	48
Air Transportation	P	452	430	0	(430)
Sanitary Sewer-Plant	S	109,993	87,716	54,997	(32,720)
-Collection	M	36,664	29,239	36,664	7,426
Storm Sewer-Arterial	S	11,714	10,092	5,857	(4,235)
-Local	M	28,829	24,400	28,829	4,429
Water Works-Plant	S	81,926	68,638	40,963	(27,675)
-Distribution	M	54,617	45,759	54,617	8,859
Garbage Collection	M	6,532	5,435	6,532	1,097
Garbage Disposal	S	23,549	19,988	11,774	(8,214)
Pub. Health Services	P	5,382	1,273	0	(1,273)
Pub. Health Insp.	M	5,997	5,991	5,997	6
Hospitals	P	10,331	10,331	0	(10,331)
Ambulance Services	P	0	0	0	0
Cemeteries	M	930	930	930	0
General Welfare Ass.	P	471	468	0	(468)
Ass. to Aged Persons	P	23,794	14,528	0	(14,528)
Community Services	M	0	0	0	0
Children's Welfare	P	322	322	0	(322)
Child Care	P	596	413	0	(413)
Parks & Recreation	M	126,967	114,481	125,537	11,056
Libraries	M	20,655	18,522	20,635	2,114
Cultural Activities	S	4,262	3,575	2,120	(1,455)
Planning & Zoning	M	3,152	2,116	3,107	990
Economic Development	M	30,318	30,230	30,286	56
Assisted Housing	P	9,234	8,189	0	(8,189)
Agri. & Reforestation	M	2,140	1,625	2,140	515
Tile/Shoreline Ass.	P	0	0	0	0
Total		1,220,907	953,723	912,917	(40,806)

* Total Expenditures minus specific transfers.

Table A2-11
CHANGES IN FUNDING RESPONSIBILITIES FOR COUNTY CITIES
CAPITAL, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	9,786	9,646	9,786	140
Fire	M	3,118	3,000	3,118	118
Police	S	2,952	2,891	1,476	(1,415)
Con. Authority	S	20	20	10	(10)
Protective Insp.	M	1,137	1,137	1,137	0
Roadways-Arterial	S	35,932	22,785	17,640	(5,145)
-Local	M	35,932	22,785	35,606	12,821
Winter Cntrl-Arterial	S	0	0	0	0
-Local	M	585	569	585	16
Transit	S	5,895	1,814	2,948	1,133
Parking	M	1,477	1,475	1,477	2
Street Lighting	M	725	673	725	52
Air Transportation	P	4,062	1,224	0	(1,224)
Sanitary Sewer-Plant	S	22,707	17,427	11,296	(6,131)
-Collection	M	7,569	5,809	7,550	1,741
Storm Sewer-Arterial	S	0	0	0	0
-Local	M	13,754	11,299	13,754	2,456
Water Works-Plant	S	20,650	18,859	10,325	(8,533)
-Distribution	M	13,767	12,572	13,767	1,195
Garbage Collection	M	1,182	1,147	1,182	36
Garbage Disposal	S	4,270	3,529	2,135	(1,394)
Pub. Health Services	P	1,433	1,048	0	(1,048)
Pub. Health Insp.	M	0	0	0	0
Hospitals	P	3,960	3,960	0	(3,960)
Ambulance Services	P	0	0	0	0
Cemeteries	M	22	22	22	0
General Welfare Ass.	P	322	322	0	(322)
Ass. to Aged Persons	P	3,763	1,290	0	(1,290)
Community Services	M	0	0	0	0
Children's Welfare	P	8	8	0	(8)
Child Care	P	91	37	0	(37)
Parks & Recreation	M	18,619	15,849	18,500	2,652
Libraries	M	2,615	2,295	2,615	320
Cultural Activities	S	2,947	1,179	436	(743)
Planning & Zoning	M	2,332	2,315	2,332	17
Economic Development	M	26,524	23,799	24,673	873
Assisted Housing	P	2,278	1,732	0	(1,732)
Agri. & Reforestation	M	25	25	25	0
Tile/Shoreline Ass.	P	0	0	0	0
Total		250,462	192,543	183,121	(9,422)

* Total Expenditures minus specific transfers.

Table A2-12
CHANGES IN FUNDING RESPONSIBILITIES FOR DISTRICT CITIES
CAPITAL, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	1,126	1,123	1,126	3
Fire	M	1,248	1,209	1,248	39
Police	S	687	687	344	(344)
Con. Authority	S	101	101	50	(50)
Protective Insp.	M	101	98	101	3
Roadways-Arterial	S	6,778	4,429	3,313	(1,116)
-Local	M	6,778	4,429	6,702	2,273
Winter Cntrl-Arterial	S	0	0	0	0
-Local	M	594	569	569	0
Transit	S	905	408	453	44
Parking	M	321	321	321	0
Street Lighting	M	314	314	314	0
Air Transportation	P	0	0	0	0
Sanitary Sewer-Plant	S	4,067	1,906	1,632	(274)
-Collection	M	1,356	635	1,222	587
Storm Sewer-Arterial	S	0	0	0	0
-Local	M	2,025	1,244	2,025	780
Water Works-Plant	S	5,383	3,516	2,690	(826)
-Distribution	M	3,589	2,344	3,588	1,244
Garbage Collection	M	243	243	243	0
Garbage Disposal	S	395	377	198	(180)
Pub. Health Services	P	200	176	0	(176)
Pub. Health Insp.	M	0	0	0	0
Hospitals	P	(121)	(121)	0	121
Ambulance Services	P	0	0	0	0
Cemeteries	M	245	245	245	0
General Welfare Ass.	P	142	97	0	(97)
Ass. to Aged Persons	P	4,948	3,853	0	(3,853)
Community Services	M	0	0	0	0
Children's Welfare	P	8	8	0	(8)
Child Care	P	88	70	0	(70)
Parks & Recreation	M	5,708	4,252	5,584	1,332
Libraries	M	120	120	120	0
Cultural Activities	S	196	185	98	(87)
Planning & Zoning	M	14	11	14	3
Economic Development	M	4,220	4,629	4,220	(410)
Assisted Housing	P	1,037	1,037	0	(1,037)
Agri. & Reforestation	M	0	0	0	0
Tile/Shoreline Ass.	P	0	0	0	0
Total		52,816	38,516	36,418	(2,098)

* Total Expenditures minus specific transfers.

Table A2-13
CHANGES IN FUNDING RESPONSIBILITIES FOR COUNTIES
CAPITAL, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	16,825	15,153	16,819	1,666
Fire	M	14,453	14,046	14,365	319
Police	S	2,260	2,183	1,119	(1,063)
Con. Authority	S	376	376	188	(188)
Protective Insp.	M	387	280	339	59
Roadways-Arterial	S	66,411	23,248	32,955	9,707
-Local	M	108,855	47,288	108,788	61,500
Winter Cntrl-Arterial	S	43	9	21	13
-Local	M	256	212	256	43
Transit	S	503	200	252	52
Parking	M	286	281	281	0
Street Lighting	M	1,138	884	1,138	254
Air Transportation	P	2,571	302	0	(302)
Sanitary Sewer-Plant	S	24,782	8,396	12,391	3,995
-Collection	M	8,261	2,799	8,261	5,462
Storm Sewer-Arterial	S	0	0	0	0
-Local	M	6,084	3,585	6,084	2,498
Water Works-Plant	S	26,418	15,000	13,208	(1,792)
-Distribution	M	17,612	10,001	17,612	7,612
Garbage Collection	M	492	475	492	17
Garbage Disposal	S	7,941	5,990	3,971	(2,019)
Pub. Health Services	P	1,044	710	0	(710)
Pub. Health Insp.	M	63	63	63	0
Hospitals	P	2,154	2,154	0	(2,154)
Ambulance Services	P	14	14	0	(14)
Cemeteries	M	302	302	302	0
General Welfare Ass.	P	283	193	0	(193)
Ass. to Aged Persons	P	16,452	6,295	0	(6,295)
Community Services	M	0	0	0	0
Children's Welfare	P	3	1	0	(1)
Child Care	P	307	76	0	(76)
Parks & Recreation	M	31,883	25,717	31,678	5,961
Libraries	M	4,995	2,923	4,995	2,072
Cultural Activities	S	3,160	1,265	698	(567)
Planning & Zoning	M	2,179	1,906	2,115	208
Economic Development	M	7,021	6,687	7,021	334
Assisted Housing	P	1,396	1,240	0	(1,240)
Agri. & Reforestation	M	9,201	6,682	9,150	2,468
Tile/Shoreline Ass.	P	0	0	0	0
Total		386,410	206,934	294,561	87,627

* Total Expenditures minus specific transfers.

Table A2-14
CHANGES IN FUNDING RESPONSIBILITIES FOR DISTRICTS
CAPITAL, 1988

FUNCTION	Funding Responsibility Assigned	Present Total Municipal Expenditures	Present Total Net* Municipal Expenditures	Recommended Total Net* Municipal Expenditures	Impact on Net Municipal Expenditures (Decrease)
		$ 000	$ 000	$ 000	$ 000
Gen'l Government	M	2,221	1,992	2,194	202
Fire	M	2,525	2,204	2,456	252
Police	S	1,158	1,100	579	(521)
Con. Authority	S	0	0	0	0
Protective Insp.	M	97	78	97	19
Roadways-Arterial	S	17,894	6,156	8,924	2,768
-Local	M	17,894	6,156	17,871	11,715
Winter Cntrl-Arterial	S	0	0	0	0
-Local	M	291	91	291	200
Transit	S	699	347	350	3
Parking	M	174	174	174	0
Street Lighting	M	474	442	474	33
Air Transportation	P	784	230	0	(230)
Sanitary Sewer-Plant	S	6,948	2,955	3,474	519
-Collection	M	2,316	985	2,316	1,331
Storm Sewer-Arterial	S	0	0	0	0
-Local	M	2,361	1,830	2,361	532
Water Works-Plant	S	11,620	2,536	5,810	3,274
-Distribution	M	7,747	1,691	7,747	6,056
Garbage Collection	M	352	352	352	0
Garbage Disposal	S	2,677	(557)	(1,443)	(886)
Pub. Health Services	P	221	177	0	(177)
Pub. Health Insp.	M	778	308	773	465
Hospitals	P	486	237	0	(237)
Ambulance Services	P	372	247	0	(247)
Cemeteries	M	175	171	175	3
General Welfare Ass.	P	41	23	0	(23)
Ass. to Aged Persons	P	3,487	2,229	0	(2,229)
Community Services	M	0	0	0	0
Children's Welfare	P	42	0	0	0
Child Care	P	849	(37)	0	37
Parks & Recreation	M	11,184	5,439	10,972	5,533
Libraries	M	808	367	796	429
Cultural Activities	S	922	327	460	133
Planning & Zoning	M	665	303	665	362
Economic Development	M	4,498	636	4,426	3,790
Assisted Housing	P	1,666	1,428	0	(1,428)
Agri. & Reforestation	M	428	163	428	265
Tile/Shoreline Ass.	P	0	0	0	0
Total		104,855	40,779	72,722	31,943

* Total Expenditures minus specific transfers.

APPENDIX 3

The Unconditional Transfer Program

In the 1973 budget, the Honourable John White, Treasurer of Ontario, introduced the Property Tax Stabilization Plan which contained the core of the present unconditional transfer program. This five-part program was intended to moderate mill rate increases across the province. The five parts included a new resource equalization transfer, a new general support transfer, a new northern support transfer, an increase in the police transfer, as well as measures to encourage economy in municipal budgets.

Every municipality in Ontario receives some level of unconditional transfers. There are three variables that determine the transfer entitlement for any individual municipality: number of households, own-source revenues and assessment.

Table A3-1
Unconditional Transfers

	Transfer	1990 Formula
1.	General per Household eligible municipalities: all upper tiers in regions all lower tiers in counties all single tier municipalities	$30 per household
2.	Police per Household eligible municipalities: all municipalities which pay for policing directly or under contract.	$50 per household
3.	General Support eligible municipalities: all municipalities	6.15% * levy
4.	Northern Support eligible municipalities: all municipalities in north	23.5% * levy
5.	Resource Equalization eligible municipalities: all municipalities whose assessment per household is below the provincial standard.	deficiency rate * levy (subject to ceiling)
6.	Revenue Guarantee eligible municipalities: all municipalities	1990 formula - 1989 transfers

Distribution of Unconditional Transfers

The table below shows the distribution of transfers by component for the years 1989 and 1990. Transfers for 1990 are based upon preliminary Ministry estimates of municipal levies and households and may have changed somewhat by year's end. The most obvious differences in the 1990 program are:

- the elimination of the density per household transfer,
- the significant reduction in the Resource Equalization Grant (REG), and
- the large increase in the revenue guarantee.

The main component of the program which is devoted to equalizing fiscal capacity, is the REG. In 1989, 607 municipalities qualified for the REG receiving in total $123 million. In 1990 only 480 municipalities qualified for the transfer, and received in total about $46 million. The drop in the REG funding ($77 million) is for the most part picked up by the Revenue Guarantee Grant, which increased by $73 million.

Table A3-2
Growth in Unconditional Transfers by Type

	1989 Transfer	1990 Transfer	Change	
	$Million	$Million	$Million	%
General per Hhd.	109	115	6	5.5
Police per Hhd.	150	159	9	6.0
Density per Hhd.	6	0	(6)	(100.0)
General Support	350	380	30	8.6
Northern Support	87	92	5	5.7
Resource Equal.	123	46	(77)	(62.6)
Revenue Guarantee	37	110	73	197.3
Subtotal	862	902	40	4.6
Special Assist.	8	11	3	37.5
Total	870	913	43	4.9

The following table shows the distribution of each transfer component as a percentage of the total program. Again, the most significant changes are evident in the density, REG and Revenue Guarantee Grants.

Table A3-3
Percentage of Total Unconditional Transfer Program

Transfer	1989	1990
	%	%
General per Hhd.	12.6	12.7
Police per Hhd.	17.4	17.6
Density per Hhd.	0.7	0.0
General Support	40.6	42.1
Northern Support	10.1	10.2
Resource Equal.	14.3	5.1
Revenue Guarantee	4.3	12.2

The following table shows the distribution of unconditional transfers by sector. As shown, the most significant changes are to Metro Toronto and the regions. More specifically, increases will flow to the areas which have seen the greatest increase in households and tax levies since 1988.

Table A3-4
Unconditional Transfers by Sector

	1989 Transfer	1990 Transfer	Change	
	$Million	$Million	$Million	%
South				
Metro	187	199	12	6.4
Regions	282	303	21	7.4
Co. Cities	121	122	1	0.5
Counties	109	112	3	3.1
Total	699	736	37	5.2
North				
Region (Sudbury)	37	37	0	0.0
Dis. Cities	65	65	0	0.1
Districts	62	64	2	2.2
Total	164	167	3	0.9
Subtotal	862	902	40	4.6
Special Assist.	8	11	3	33.3
Total	870	913	43	4.9

APPENDIX 4

The Incidence of Property Taxes

Over the past two decades, a number of studies have attempted to measure the incidence[27] of property taxes in Canada. The results of each study have depended on two factors: the investigator's choice of an income measure, and his or her assumptions about the allocation of property tax payments across income groups.[28]

The income measures selected have included annual family money income, annual income adjusted to reflect government expenditure and taxation policies, and estimated lifetime income (or permanent income). Virtually all of the studies relied upon aggregate property tax data, with the result that the investigator had to disaggregate these data on the basis of one assumption or another about the distribution of tax payments across income groups. In other words, none of

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27 In most of the empirical work completed, property tax incidence is measured by dividing property taxes collected by some measure of income.

28 For a complete summary of the assumptions used in the tax incidence literature and how these affect the conclusions derived, see G.B. Dahlby, "The Incidence of Government Expenditures and Taxes in Canada: A Survey," in Francois Vaillaincourt, ed., Income Distribution and Economic Security in Canada, Research Studies of the Royal Commission on Economic Union and Development Prospects for Canada, Vol. 1, (Toronto: University of Toronto Press, 1985), pp.11-151.

the studies demonstrated the validity of their results; they merely demonstrated what the distribution of the property tax burden would have been if their assumptions were true.

The dubious validity of these results may be less of a concern than the assumption that the incidence of the property tax should be measured on the basis of income.[29] It has been suggested that the use of income as the index of equality implies that one is judging the "property tax on the basis of how closely it resembles the income tax, in every detail. Since nothing resembles the income tax so much as the income tax, the property tax looks inferior."[30]

An alternative approach to the incidence issue is to view property taxes as a tax on wealth; in other words, the owner's equity (defined as market value minus outstanding mortgage; in reality, this would represent the money going to the owner if the property were sold) or market value of his or her property is taken as a rough measure of wealth. This may not be as far-fetched as some would argue. Property taxes can be interpreted as being "the major

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[29] R.M. Bird and N.E. Slack, Residential Property Tax Relief in Ontario (Toronto: Ontario Economic Council, 1978), p.68.

[30] M. Mason Gaffney, "The Property Tax is a Progressive Tax," in Proceedings of the Sixty-Fourth Annual Conference on Taxation (Columbus, Ohio: National Tax Association, 1972), p.423.

representative of wealth taxation in Canada."[31] The use of either wealth measure (owner's equity or market value), generate incidence results that are very different from those calculated using annual household income as a base.

The data for this comparison are taken from the 1986 Survey of Expenditure Data Tape[32] (available from Statistics Canada, Ottawa) for Ontario residents who owned and lived in their own dwelling for the entire year. While the data set does not separate households in specific municipalities from the rest of the province, this should constitute an interpretation problem. The relative distributional impact across income groups in any municipality is likely to be similar to that for the entire province. Commercial and industrial properties are excluded from the data set because it only covers household data. Rental and farm properties are excluded because renters did not provide property tax information (in most cases, they were not aware of the level of property tax on their rented quarters) and farm properties are assessed differently than non farm

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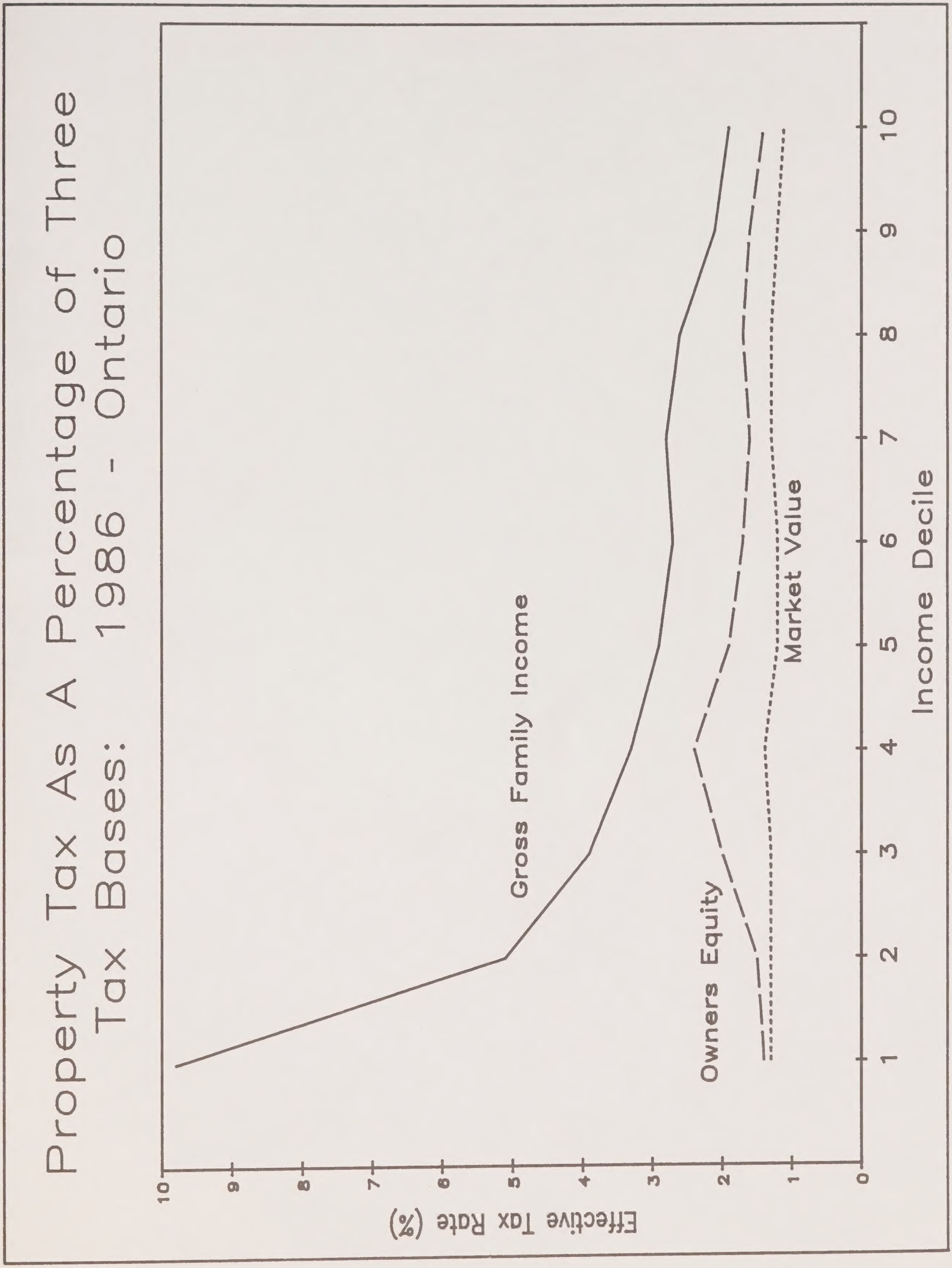
31 Richard Musgrave, Peggy Musgrave and Richard Bird, Public Finance in Theory and Practice (Toronto, McGraw-Hill, 1987), p.434.

32 This data set includes an enormous amount of information on household expenditures and income for a large sample of families. While Ontario respondents can be identified by province, they cannot be identified by name or specific location within the province.

residential properties. Hence, the comparison is strictly across residential owner-occupied households in Ontario for 1986.

Figure A4-1 compares the incidence of property taxes across income groups by using three different indices of equality. When property taxes per household are taken as a percentage of household income, one notices a highly regressive pattern; that is lower-income households pay a higher percentage of their income in property taxes when compared with higher-income households. If, however, household property taxes are taken as a percentage of owner's equity or market value, quite a different pattern emerges. As a percentage of either homeowner's equity or market value, the tax tends to be higher for middle-income households than for households at both ends of the income scale.

Figure A4-1



Property Tax As A Percentage of Three
Tax Bases: 1986 - Ontario
Effective Tax Rate (%)
0
1
2
3
4
5
6
7
8
9
10
Gross Family Income
Owners Equity
Market Value
1
2
3
4
5
6
7
8
9
10
Income Decile